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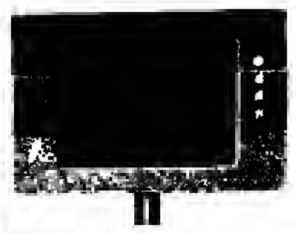

German TV wars

Kirch and Bertelsmann try again for a truce

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World Business Newspaper http://www.FT.com THURSDAY JUNE 26 1997

Andersen turmoil as partners reject Shaheen again

Partners of Andersen Worldwide have plunged it into turmoil by rejecting their board's nomination of a new chief executive for the second time. The board, meeting by teleconference, was told the 2,700 partners had not given the required two-thirds majority to elect Mr George Shaheen, head of Andersen Consulting worldwide. Page 14

Germany pledges budget cuts: German finance minister Theo Waigel has signalled that Germany's 1998 federal budget, due on July 11, will involve real cuts in spending and that some ministers would see their budgets fall. Page 14

UK pledge on Ulster talks: British prime minister Tony Blair has said new arrangements for the government of Northern Ireland would be determined by the middle of next year, even if nationalist party Sinn Féin remained outside talks due to begin in September. "The settlement train is leaving, with or without Sinn Féin", Mr Blair told parliament. Page 9

Clinton backs clean air plan: US environmental campaigners have claimed a victory after President Bill Clinton broadly upheld Environmental Protection Agency's proposal for much tighter air quality standards. Campaigners said he had resisted the demands of industrial lobbies who claimed the new standards would be economically crippling.

Thailand gets tough: Thailand's central bank has announced that it will not subscribe to a rights issue for Finance One, formerly the country's largest finance company. The decision means the Thai authorities will no longer provide unlimited support to financial institutions, seeking instead to encourage consolidation in the troubled sector. Page 14

Jacques Cousteau dies at 87

French oceanographer Jacques-Yves Cousteau, left, has died at the age of 87. A pioneer of scuba diving, he toured the world's oceans in his converted minesweeper Calypso and became a familiar figure through his television series *The Undersea World of Jacques Cousteau*. In later years he became a keen campaigner against marine pollution and French nuclear testing. Page 2

EU will not back Hong Kong boycott: The UK has failed to persuade most of its EU partners to join a boycott of China's swearing-in ceremony for Hong Kong's provisional legislature next week. Page 14

South Africa details exchange controls: South Africa has announced details of the next stage in relaxing foreign exchange controls. From July 1 South Africans will be able to hold up to R200,000 ($44,445) in foreign currency. The planned relaxation was foreshadowed in the March budget, but the concession was 20 per cent higher than expected.

Russia and China in $20bn deal: Russia and China are set to sign agreements aimed at boosting their two-way trade to $20bn a year by 2000, from last year's $6.8bn. Page 7

Philippines privatisation collapses: The Philippines' largest privatisation this year has collapsed after failing to attract bidders. The government had been aiming to raise 8.8bn pesos ($337m) through the sale of its stake in (FTI), a Manila agro-industrial complex. Page 15

Morgan Stanley earnings decline: Morgan Stanley Dean Witter Discover, Wall Street's newest investment banking giant, recorded an 8 per cent decline in quarterly earnings in the first period since the merger which created it last May. Page 15; Lex, Page 14

Newspapers to merge: Geneva'e oldest newspaper, the French-language Journal de Geneve, is to merge with rival Swiss daily Le Nouveau Quotidien.

Accident in space: Russia's orbiting MIR space station has been hit by an unmanned cargo ship during a practice docking, causing an oxygen leak and cutting the station's power supply. The two Russians and one American aboard are safe, and no evacuation is planned.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7775.48	(+17.42)
NASDAQ Composite	1456.14	(+3.71)
Europe and Far East		
CAC40	2867.44	(+82.66)
DAX	3798.51	(+42.69)
FTSE 100	4640.0	(+43.7)
Nikkei	20,679.27	(+337.34)

US LUNCHTIME RATES

Federal Funds	5⅝%
3-mth Treas Bills: Yld	5.093%
Long Bond	96 [illegible]
Yield	6.702%

OTHER RATES

UK: 3-mo Interbank	6 [illegible]%	(same)
UK: 10 yr Gilt	101 [illegible]	(100 [illegible])
France: 10 yr OAT	99.34	(99.27)
Germany: 10 yr Bund	102.33	(102.32)
Japan: 10 yr JGB	103.552	(104.557)

NORTH SEA OIL (Argus)

Brent Dated	$17.53	(17.6)

GOLD

New York: Comex	$337.3	(337.8)
London: close	$338.85	(338.55)

DOLLAR

New York: lunchtime		
£	1.66255	
DM	1.72355	
FFr	5.8160	
SFr	1.4380	
Y	113.88	
London:		
£	1.6640	(1.6660)
DM	1.7235	(1.7240)
FFr	5.8170	(5.8206)
SFr	1.4375	(1.4374)
Y	113.940	(114.85)
Tokyo close:	Y 114.05	

STERLING

DM	2.8678	(2.8721)

9 770174 736142 26

Partial privatisation likely to get go-ahead

France Telecom sale expected in the autumn

By David Owen in Paris

French ministers expect to partly privatise France Telecom this autumn, ahead of next year's liberalisation of European telecoms markets.

They expect to press ahead with the sale of a minority interest in the company, in what could be France's largest privatisation, as early as September or October.

Such a move would represent a clear shift away from the stance adopted by the victorious Socialist party in the recent general election and could put relations with the Communists, now partners in the ruling leftwing coalition, under strain.

But it would raise much-needed funds to recapitalise ailing state-owned companies, while reassuring markets about the pragmatism of Mr Lionel Jospin's new government at a time when there are still doubts over the strength of its commitment to European economic and monetary union.

The move would also raise hopes that the sale of shares in other companies earmarked for privatisation by the previous centre-right regime might eventually be sanctioned.

Companies falling into this category include Aerospatiale, the aircraft maker, Air France and Thomson-CSF, the defence electronics company.

The sale of France Telecom shares needs to be cleared by Mr Jospin, but supporters of privatisation in the government were reassured by passages of the prime minister's keynote speech to the National Assembly last week. Though this was widely interpreted as being cool on privatisation, the ministers were encouraged by the prime minister's distinction between "public services" and "the public sector".

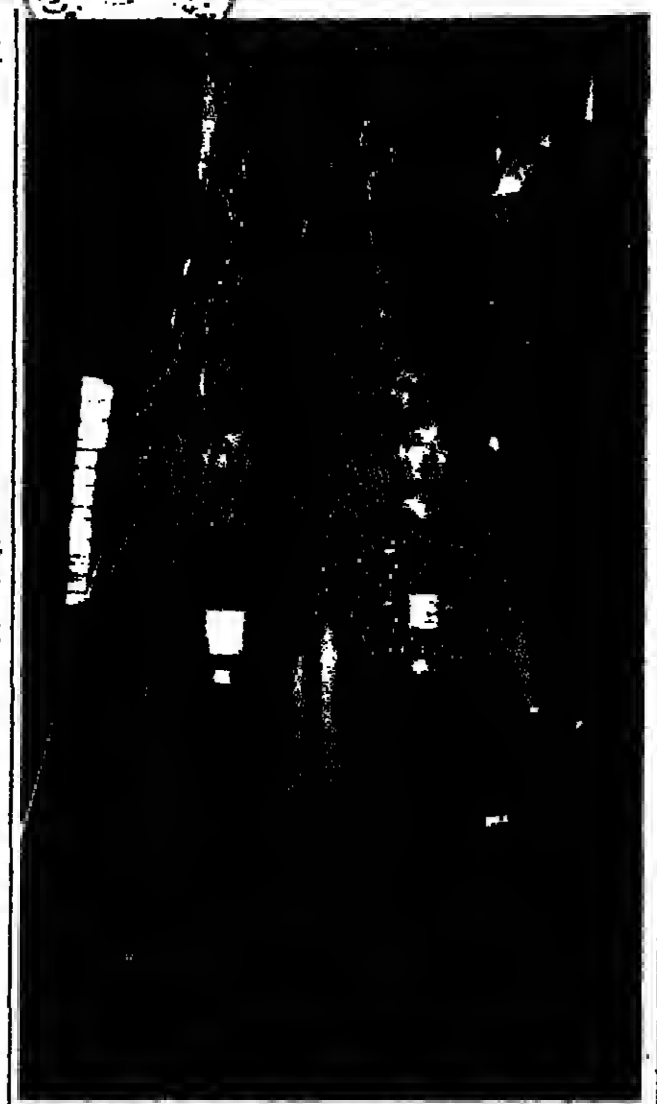
Including telecoms, electronics, aeronautics and "other sectors" in this latter category, Mr Jospin said he was "not in favour of the privatisation of the common patrimony represented by the big public enterprises in the competitive sector, in the abeance of justification drawn from the national interest".

He continued: "For all that, we know that adaptations will be necessary to maintain our rank among the most developed nations of the world and to move closer to other European partners".

His words were interpreted by some as meaning that, while outright privatisations were out of the question, the sale of minority stakes in state-owned companies might be possible. The previous centre-right government pledged to keep 51 per cent of France Telecom in state hands.

The company's path towards

Continued on Page 14
New tricks for old dog, Page 13



Chinese soldiers in Hong Kong preparing for the handover to Beijing rule. The UK has failed to persuade most of its European partners to join a boycott of the swearing-in ceremony for the new provisional legislature. Report Page 14 Reuter

Tobacco chief attacks anti-smoking pact

By Richard Tomkins in New York

BAT boss fumes .... Page 3

One of the three tobacco chiefs who last week signed a $368.5bn settlement between the US tobacco industry and its foes says the pact will fail to meet one of its main objectives – achieving drastic cuts in teenage smoking.

In an interview, Mr Martin Broughton, chief executive of BAT Industries, the British tobacco and insurance group, described the targets for reductions in under-age smoking as "unrealistic", saying: "My expectation is that we will fail to meet them."

Mr Broughton's comments could severely damage the chances of the White House and Congress giving their approval by reinforcing the belief among anti-smoking groups that the settlement will benefit tobacco companies more than society.

New federal legislation, giving the industry immunity from big legal claims, is a condition of the deal.

Mr Broughton said the tobacco companies had only agreed to have the under-age smoking targets written into the agreement because their opponents had insisted that a deal could not be done without them.

"You must remember that this whole deal is not something we agree with," he said. "We don't support a lot of things that are in this package, but it is a package we are prepared to support overall in order to get a deal."

US president Bill Clinton is heavily committed to reducing under-age smoking, having made the issue part of his re-election campaign last year. He faces a decision fraught with political risk as he weighs up whether or not to support the tobacco settlement.

BAT is the parent company of Brown & Williamson Tobacco, the biggest cigarette company in the US after Philip Morris and RJR Nabisco. All three companies were represented in the negotiations that ended last Friday, but Mr Broughton is the only executive yet to have spoken out about the deal.

The settlement sets out to achieve a gradual reduction in smoking by discouraging young people from taking it up. It proposes extensive advertising restrictions, including a ban on the use of human or cartoon figures, and controls on teenage access to cigarettes, including a ban on vending machines and a licensing system for vendors.

Under-age smoking is targeted to fall by 30 per cent in five years and 60 per cent in 10 years, with the tobacco industry to be penalised by up to $2bn a year if the targets are missed. But these payments can be reduced by 75 per cent if the industry can show it has "pursued all reasonably available measures" to achieve the goals.

Mr Broughton called the targets unrealistic. He said they were based on the "totally false premise" that youngsters only smoked because cigarette companies advertised to them and made their products freely available to them.

"It makes a ridiculous assumption that it is nothing to do with societal factors or peer pressure or parental pressure," he added.

Waigel warns ministers of extensive budget cuts

By Peter Norman in Bonn

Mr Theo Waigel, finance minister, yesterday signalled that Germany's 1998 federal budget would involve real cuts in nearly all departmental spending plans. The budgets of some ministers would decline in cash terms.

The minister pledged to limit next year's federal deficit to DM58bn ($33.7bn), DM2bn more than outlined in earlier plans in spite of an extra burden of DM30bn caused by high unemployment and lower than expected tax revenues.

The budget, due to be agreed by the cabinet on July 11, would then conform with Germany's constitution. This specifies that new borrowing should not exceed the amount spent on investments.

Mr Waigel was speaking at a meeting of the financial planning council, which seeks to co-ordinate the budget plans of the federal, state and local authorities.

He also promised additional cuts in non-investment spending and greater efforts to privatise in 1998 to limit federal borrowings.

Mr Waigel's warning of spending cuts came before negotiations with spending ministers to pare their outlays. Today he meets Mr Volker

Waigel: pledge to limit deficit

Rühe, the defence minister, who is fighting for funds for Germany's large conscript army and the new Eurofighter combat aircraft.

The government'e financial policies came under strong attack from the opposition Social Democrat party.

Mr Rudolf Scharping, SPD leader in the Bundestag, the lower house of parliament, announced that the SPD would file a complaint against the government in the constitutional court.

It will claim that the 1996 federal budget was illegal because last year's borrowings of DM78.3bn were higher than planned, and exceeded federal investments of DM66bn.

Mr Karl Diller, the SPD budget spokesman in the Bundestag, said the federal deficit in the five months to the end of May had already reached DM53.4bn and therefore exceeded the DM53.3bn total approved in the 1997 budget.

In the financial planning council, the SPD-controlled Länder, which form a majority of the federal states, warned that it was uncertain whether Germany's public finances could be returned to a position of strength on a sustainable basis.

The SPD states said excessive public deficits and a further increase in Germany's overall debt level were to be feared in 1997 and 1998 following last year's deficit of 3.8 per cent of gross domestic product.

But Mr Waigel again expressed confidence that this year's public deficit would not exceed the limit of 3 per cent of GDP specified in the 1992 Maastricht treaty, as a criterion for European economic and monetary union, or Emu.

In addition Ms Irmgard Karwatzki, a finance ministry state secretary, denied that the 1996 budget was illegal.

She said the constitutional clause limiting the deficit to the level of investments applied only up to agreement on the budget by parliament and not to its eventual execution.

Swiss act to resolve dormant holocaust funds row

By William Hall in Geneva

Swiss banks were yesterday ordered to waive bank secrecy laws and start publishing the names of long-dormant bank accounts next month, in a move to speed up the return of holocaust victims' funds to rightful claimants.

The banks have also agreed to the establishment of a panel to resolve disputes between claimants and Swiss banks, according to Mr Paul Volcker, former US Federal Reserve chairman and head of an international committee investigating dormant Swiss bank accounts, and the Swiss Federal Banking Commission.

The banks' agreement to the banking commission's demands over secrecy and claims is a sign of their eagerness to resolve a controversy which is damaging their business. The crisis over holocaust victims' funds has already resulted in several multi-billion dollar US class actions against them by US holocaust survivors.

"There will be no legitimate place for the audited banks to hide from our investigation," Mr Volcker assured the House of Representatives banking and financial services committee in Washington yesterday.

The first list of dormant accounts will be published on July 23 and and will be circulated worldwide using the internet and other media. A second, updated list will appear on October 20.

ATAG Ernst & Young (Basle), an accountancy firm, will administer a centre to provide information to claimants, register claims, and prepare files for the claims resolution process.

A claims resolution panel will be established to cover any disputed claims. It will have a Swiss chairman but the majority of its members will be non-Swiss.

When the crisis surfaced the Swiss banks asked Mr Hanspeter Hanl, Swiss banking ombudsman, to help would-be claimants find their

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LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Foreign ministers meet as debate hots up over French 'foot-dragging' on Maastricht criteria

Franco-German strains at EU talks

By Lionel Barber in Brussels

EU foreign ministers meet in Luxembourg today burdened hy growing strains in the Franco-German alliance over economic and monetary union.

The tensions stem from the failure of the new leftwing French government to state clearly that it is ready to curb a worse than expected public deficit this year, to qualify for Emu. German officials say they suspect the Socialist-led coalition in Paris has abandoned all pretence of meeting the deficit target of 3 per cent of gross domestic product in 1997.

The German view, shared in the European Commission, is that the French are gambling on a relaxed interpretation of the Maastricht treaty basad on a favourahla "trend" toward the deficit target. Frencb inaction contrasts to the frantic efforts the Bonn government is making to resolve its own hudget crisis and hit the 3 per cent deficit target.

"We understand that Jospin (the French Socialist premier) did not expect to win the election and that he has problems with his Rainbow coalition," said one German official. "But how France reacts in the next few weeks will determine the fate of Emu."

In the aftermath of last week'a inconclusive EU summit in Amsterdam, where European leaders failed to agree minimal institutional reforms to prepare for enlargement, diplomats are reassessing the political landscape, especially in Germany.

Bonn's last-minute opposition to an extension of majority voting in Amsterdam has underlined that a weakened Chancellor Kohl has no room for manoeuvre in the run-up to the October 1998 elections and that he is in no position to hand out favours to the French.

Not only is Mr Kohl trailing in the polls, he is under increasing pressure from his conservative CSU coalition allies in Bavaria, where Mr Edmond Stoiber, Bavarian prime minister, repeated yesterday that the letter of the Maastricht treaty must be respected or Emu delayed.

Soma of Mr Kohl'a colleagues, notably Mr Wolfgang Schänble, have begun to distance themselves from a fixation on 3 per cent, but there is no hint that the Chancellor could sell, say, a French deficit of above 3.5 per cent to a sceptical German public. Pressure is building on the new French government to take action.

Mr Jean-Claude Trichet, governor of the Banque de France, said this week it was essential to reduce deficits to restore growth. Mr Yves-Thibault de Silguy, French monetary affairs commissioner in Brussels, said there should not be a "brutal" interpretation of the criteria. But the room for manoeuvre was small. "No risks should be taken with the euro."

Other nations, notably the Dutch, Irish and Belgians, are also understood to have passed similar warnings to France, focusing on pro-European figures such as Mr Dominique Strauss-Kahn, finance minister, and Mrs Elisabeth Guigou, justice minister.

Mr Gerrit Zalm, Dutch finance minister, asked Mr Ruairi Quinn, his Irish colleague and a member of the Labour party, to deliver a private appeal to Mr Strauss-Kahn at the most recent meeting of EU finance ministers in Luxembourg.

Mr Quinn ohliged with a passionate defence of fiscal responsibility, urging Mr Strauss-Kahn not to go back down the road of "Socialism in One country" followed by the Mitterrand government in 1981-3.

Commission officials say the elected socialist politicians in France may not count as much as the French bureaucratic élite – the *enarques* – who are wedded to Emu on the grounds that it is the best way of containing German power.

They point to a network of former Brussels diplomats and officials surrounding Mr Jospin and Mr Strauss-Kahn.

Italian hopes over Emu rise

By Paul Betts in Milan

The prospect of Italian membership of the first wave of European monetary union was "no longer just a hope", Mr Carlo Azeglio Ciampi, Treasury minister, said yesterday.

Speaking to the annual meeting of the Italian Banking Association, he said a 3 per cent public deficit to gross domestic product ratio had become a credible target for the country to meet by the end of 1997.

Mr Mario Draghi, Treasury director-general, said tha European Union's monetary committee had broadly welcomed Italy's economic convergence plan, which had been submitted in Brussels for approval.

The three-year plan, given final approval by the Italian Senate this week, includes an adjustment of L25,000bn ($14.7bn) in the 1998 budget, involving spending cuts and new tax revenues to bring the public deficit down to 2.8 per cent of GDP.

Growing expectations that Italy would qualify for early Emu membership yesterday continued to boost Italian financial markets, witb stocks and bonds pursuing last week's rally and the lira trading strongly al the DM977 level.

The Italian government has become increasingiy optimistic it will meet the Maastricht criteria to take the country into the first round of Emu in 1999.

Mr Ciampi noted Italy had the strongest balance of payments current account surplus in Europe and the cost of servicing the country's debt would stabilise around 7-8 per cent of GDP compared with 12.1 per cent a few years ago.

Preliminary consumer price figures released in recent days showed an inflation rate in June of only 1.4 per cent.

Though Mr Ciampi warned a monthly rise in inflation statistics would occur in coming months, he said the government'a target of 1.8 per cent inflation in 1998 was feasible.

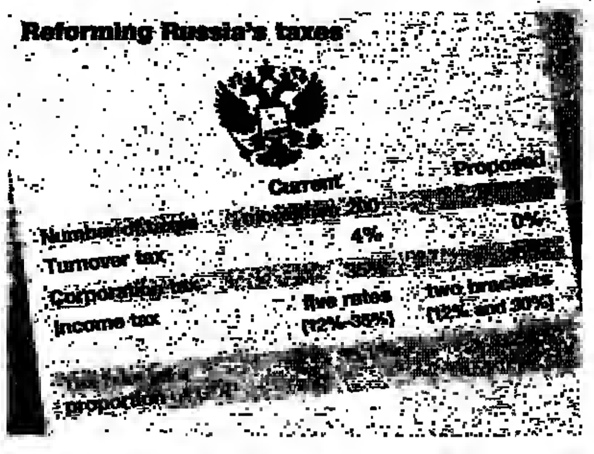
However, Italy's Confindustria employers' confederation warned in its latest economic study that Italy would fail to meet the Maastricbt targets unless it made L10,000bn structural cuts in welfare spending.

The government is now in the throes of difficult negotiations with the labour unions on reforming the country'a costly welfare system.

Yeltsin over first tax hurdle but still some way to go

By John Thornhill in Moscow

Reforming Russia's taxes



Mr Boris Yeltsin, Russia's president, was quick to hail parliamant'a conditional approval of a desperately-needed tax code at its first reading last week, as an "enormous victory" for economic reform.

Simplification of the complex tax regime would help restore order to the country's shambolic pnblic finances, Mr Yeltsin claimed, eliminating the govarnment's "shameful" arrears to pensioners and stimulating investment in the real economy. The government could now plan its 1998 budget on sensible assumptions about its future revenue base. Arbitrary taxation, that great bugbear of corporate managers and foreign investors alike, would be eliminated.

Many economists also weicomed approval of the tax code but warn it is far from the panacea it seems.

Parliament can still table amendments before the code is enacted later this year and its implementation will prove critical. Mr Yeltsin may have won an important victory, they say, but ha could still lose the war.

"If parliament had not passed the code it would have been a disaster for tax reform," says one economic adviser to the government. "It was an extremely important hurdle to cross but it is not the last hurdle.

"The real battle to make it effective begins now," he added.

Architects of the new tax code argue its chief purpose is to make payment transparent, predictable, and fair. To that end, the number of taxes will be cut from more than 200 to 30 while most of the 2,000 legal documents defining Russia's tax laws will be shredded. More of the tax burden will be shifted from corporations to individuals with the five individual income tax brackets being reduced to two.

The tax base will be broadened by plugging loopholes. The much-hated turnover tax, which was even applied to loss-making companies, will be abolished.

The government believes its overall tax take will fall from 35.1 per cent to 32.4 per cent as a result of these changes, liberating additional resources for private-sector investment.

Provisions allowing companies to challenge tax rulings in the courts should further bolster the confidence of investors.

But sound as all these principles appear in theory, they must work in practice in an environment in which government is widely distrusted and tax evasion has evolved into an art form.

'President may have won a victory but he could still lose the war'

At a recent meeting with foreign investors, Mr Alexander Pochinok, head of the state tax service, said the government had to establish the principle that everyone should pay their way. "Otherwise, those who pay will feel sore that the next man does not pay," he declared.

Government officials concede it will be an enormous challenge to entrench this principle in a country where 2,023 major legal entities do not pay any taxes at all at present and where just 3 per cent of adult Russians had filed their income tax returns this year by the official deadline. It also places a huge responsibility on Russia's 35,000 poorly-paid tax inspectors, whom MPs allege are corrupt and thrive on the arbitrary nature of the present tax regime.

Mr Yevgeny Yasin, an economice minister who has been closely involved in tax policy, expressed the government'a quieter fears about the new tax code in a recent interview with the Novoye Vremya journal.

Although universal economic theory suggests the tax code should succeed, Russian particularities may yet pervert its effects.

Previons attempts to raise extra revenue by broadening the tax base and reducing VAT from 28 per cent to 20 per cent had only resulted in a fall in tax collection, Mr Yasin said.

"It turns out that when you reduce tax rates, those who used to pay taxes continue to pay them, while those who did not pay, continue not to pay," he added.

There was a danger, he warned, that the governmant conld ramain "suspended in mid-air" unable to collect its taxes and unable to pay its ohligations.

Duma sparks fighting talk

By Chrystia Freeland in Moscow

Tha Russian government stepped up its attack against the leftwing parliament yesterday when a senior minister threatened that tha Kremlin might dismiss the legislature after MPs return from summer recess.

Mr Oleg Sysuyev, a deputy prime minister whose welfare reform measures were rejected by parliament this week, warned: "The situation will be even more difficult in the autumn, and the question of changing the Duma [lower house of parliament] may be raised by the executive branch. It may raise it in a tough manner."

The minister's prediction is the toughest statement yet in tha Kremlin's battle with the Communist-dominated Duma, which this week refused to endorse its austere mini-budget.

Russia's strong presidency means tha cabinet reform team is likely to be able to push throngh belt-tightening measures regardless of the parliament's objections. But the Duma's intransigence could set the Kremlin up for a difficult autumn, when parliamentarians will be free to attack the government for failing to meet the more generous spending targets in the official 1997 budget. Earlier this week Mr Anatoly Chubais, a first depnty prime minister, castigated the Duma as being "incapable of functioning."

Czechs fight off military apathy

The Prague government has not encouraged debate about joining Nato, writes **Vincent Boland**. People are cynical about defence alliances and are divided about benefits of adhering to the western alliance

NATO LOOKS EAST

The Czech Rapnblic's military top brass gathered near Prague earller thia month to watch a bottle of champagne being smashed on the long shiny nose of a new jet aircraft, as Jesus Christ Superstar hlared on speakers inside an echoing hangar.

After years of hush-hush development, the L159, a "multi-role combat aircraft", described hy the defence minister, Mr Miloalav Výborný, as "the backbone of the Czech air force for the 21st century", was ready at last for puhlic display after years of uncertainty.

Built by Aero Vodochody, a Czech defence contractor, the L159 is, in the huzzword of the day, "Nato-interoperahle", meaning "it fulfills the demand for a multi-purpose, subsonic jet fully compatible with air forces of the Nato alliance," according to Mr Výborný. As it happened, June 12 was a very good day indeed for the Czech defence establishment. Within hours of the launch of the L159, President Bill Clinton announced that the Czech Republic would be one of three countries, along with Poland and Hungary, invited to join Nato at next month'a alliance summit in Madrid.

If the Czecb military is smiling, the government is taking a more pragmatic approach as it prepares to accept the invitation. Mr Václav Klaus, the prime minister, has presented Nato membership as a *fait accompli* and has not encouraged any national debate on the costs and benefits of such an important strategic decision.

The public is divided on the issue. Opinion polls show that fewer than balf of all Czechs support membership, with more than half seeing no benefit in it. This is desplte claims by proponents of expansion that it fills the security vacuum in which the country has languished since the collapse of communism and fosters integration with the west.

Czechs are historically cynical of military alliances and agreements, which have failed them spectacularly in the past. At the same time, observers note that as the threat from Russia has receded in recent years Czechs have begun to feel more secure.

"If there is no Russian threat, Czechs see no security threat at all," says Mr Jiří Pehe, a political analyst. Nato entry would have been symbolically more important five years ago when the perceived threat from Russia was greater, he says.

Such attitudes suggest Mr Klaus is right to believe there are few votes to be won touting Nato membership. But officials fell it can bring economic benefits, especially to the ailing aerospace industry through alliances with western defence contractors to upgrade the air force's fighting cepacity, for which a $1bn contract is in the offing. Ministers have already agreed to underwrite the air force's purchase of 72 of the L159s, costing Kc23bn ($717m).

President Václav Havel, the leading proponent of Czech membership of Nato, is said to be privately dismayed at the government's stance. He regards membership as a crucial atep in the country's integration into western institutions and has tried to convince Czechs of its benefits, with little apparent success.

Other Czech laaders are also concerned at the lack of public support. Mr Michael Zantovský, leader of a junior government party and a former Czech ambassador to the US, complained this week that the apathy could be counter-productive, and urged a greater awareness of what is at stake.

Western diplomats say that "for purely practical purposes" there is no need to have any real debate since "the invitation will be forthcoming and it will be accepted." But some believe wider public support would smooth ratification of Nato expansion through tha US congress.

"There is a danger that it will be seen as dragging the Czechs into Nato against their will. This is an historic decision affecting the whole nation," one said.

● *This is the second article in an FT series on the three countries most likely to be invited to join Nato in Madrid on July 8. The first article yesterday looked at Hungary*

Yugoslavia justifies debt proposal

By Anthony Robinson, East Europe Editor

Yogoslavia could afford to repay only 20 per cent or roughly $480m of the $2.4bn it owed to foreign commercial banks, Mr Danko Djunic, the Yugoslav depnty prime minister, said yesterday.

He was responding to a negative reaction from the London Club of bank creditors representing around 200 foreign banks to Yugoslavia's debt restructuring proposals presented to them earlier this week.

"We are not tied to a rigid 80 per cent figure for debt reduction and we bave agreed to go through the data with the banks to see if we can afford to pay more. But we have other commitments to the IMF, the World Bank and other creditors and we must have some resources ieft for investment," Mr Djunic said.

"We are ready to make sacrifices. But there is no point in agreeing to unrealistic terms which might cause us to default on any new loans or bonds [issued to restructure the current debt]," he added.

Mr Djunic admitted that the request for an 80 per cent reduction had been "a red flag" to the banks. "But former Yugoslavia'a creditors have already been paid 61 cents for every dollar of former Yugoslav debt thanks to debt restructuring agreements already reached with Slovenia, Croatia and Macedonia," be added.

The two sides have agreed to meet again next month, but no date or venue has been set. Bankers were frustrated hy what they saw as unrealistic and essentially political proposals while they had expected a basis for serious negotiations.

The bank's reaction could eventually rebound against Mr Slobodan Milosevic.

Tha Serbian president's current primary interest is to assure himself another four years in power as president of Yugoslavia. But once elected by the federal parliament be controls he must get Yugoslavia back into the financial mainstream to escape impending bankruptcy and further economic collapse.

Mr Milosevic has proved that he is prepared to sell off prime assets at a bargain price to suit his own electoral needs.

But bankers noted that less than a week after the Serbian treasury received around DM1.2bn ($690m) in cash from the total DM1.57bn which Stet and OTE, the Italian and Greek telecoms companies agreed to pay for a 49 per cent in Serbian telecoms, the government caved in to striking doctors and medical staff.

Other sectors of tha poorly paid workforce are now expecting that their salary backlogs will also be paid and this will further drain off funds which would otherwise be available to finance enterprise and bank reforms.

Meanwhile, the World Bank said yesterday that the board would meet on Tuesday to discuss a $30m loan to Croatia after the US government signalled its anger at the Croatian government's record on human rights and compliance with the Dayton peace accords by calling for the postponement of a decision on the loan.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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EUROPEAN NEWS DIGEST

French invest more abroad

French direct investment abroad almost doubled last year, but domestic investment was subdued, according to the central bank's annual report.

While France's foreign trade is healthy and consumption generally better than expected, the relatively low levels of investment do much to explain why growth was only 1.5 per cent in 1996 and only 0.2 per cent in the first quarter of this year.

French direct investment in foreign countries doubled to FFr155.6bn ($26.6bn) in 1996 from FFr78.6bn a year before. The bank said five countries – the US, Germany, the Netherlands, Belgium and Italy – accounted for more than half of it. Brazil, in eighth place overall, topped the list of French investment in developing countries.

Over the same period, foreign direct investment in France edged down from FFr118.1bn to FFr112.3bn. But the bank said the level remained high and "confirmed the attractiveness of France". *David Owen, Paris*

Peugeot chief lowers forecast

Mr Jacques Calvet, soon to retire as chairman of French carmaker Peugeot-Citroën, has again lowered his forecast of new car sales in domestic market this year. He told the group'a annual meeting yesterday that he expected sales to be down 15.6 per cent from year-earlier levels at about 1.8m units.

In May, he was projecting a 13.3 per cent decline, suggesting then that France was likely to be only the fourth largest European new car market this year, behind Germany, Britain and Italy. While the French market was "crumbling", Mr Calvet said, new car sales in western Europe should rise by 2.1 per cent this year, with a particularly strong 26 per cent advance in Italy, where sales have been stimulated by a government rebate programme.

Mr Calvet said the expected decline in Peugeot-Citroën's French sales this year would be "almost entirely compensated" by higher sales elsewhere in Europe and the rest of the world. *David Owen, Paris*

Peugeot, Page 18

Geneva to lose oldest paper

Geneva is to lose its oldest independent newspaper. Journal de Genève, founded in 1826, is merging with Lausanne's Nouveau Quotidien, Switzerland'a newest and most successful daily newspaper, to form the Nouveau Journal. The headquarters of the new paper, which will have a combined circulation of more than 70,000, will be in Geneva, but Mr Eric Hoesli, editor of L'Hebdo, a weekly magazine owned by tha rival Ringier group, is being brought in as editor.

Journal de Genève lost SFr2.9m ($2m) last year, and Nouveau Quotidien, which has a slightly higher circulation, is also believed to be loss-making. The combination of the two groups will create the biggest newspaper in French-speaking Switzerland. Nouveau Quotidien, established in 1991, is 80 per cent owned by Edipresse, the biggest publishing group in French-speaking Switzerland, and 20 per cent by Ringier, the biggest publisher of Switzerland'a German language press. Journal de Genève is 70 per cent owned hy the Sandoz family foundation. *William Hall, Geneva*

Cousteau dies at 87

Jacques-Yves Cousteau, the French researcher and documentary-maker made internationally famous by the success of his films of the natural world, died yesterday aged 87.

Born in 1910 in the Gironde, he studied at naval college and was employed as a marine officer until 1956. He worked as a spy against the Italians during the war, and in the subsequent years he developed a career in oceanography, deep-sea diving and using his ship Calypso as his base.

Cousteau was not trained as a scientist, and his many books and films often triggered controversy with specialists. His real achievement was to popularise nature, and his film *The Silent World*, made with the director Louis Malle, won the 1956 Palme d'Or at the Cannes festival. Multiple television contracts gava him strong financial independence, but also created tensions with his family, and notably a falling-out with his son Jean-Michel, who launched various business activities in the US using his name.

An early campaigning ecologist, he criticised nuclear discharges into the sea as early as 1960, the relaunch of the controversial Superphénix nuclear fast reactor, and in 1995 the resumption of nuclear testing by France'a newly-elected President Jacques Chirac. He received many honours, including membership of the Académie Française, awarded belatedly in 1988. *Andrew Jack, Paris*

Germans clash over Emu

Germany's difficulties in meeting the criteria for a single European currency this year triggered a row yesterday between senior figures in the government coalition parties of Chancellor Helmut Kohl. Mr Edmund Stoiber, Christian Social Union premier of Bavaria, was accused of "anti-European populism" by Mr Wolfgang Gerhardt, leader of the Free Democratic party in Bonn. Mr Stoiber had insisted in a newspaper interview on strict adherence to the 3 per cent target for public sector deficits of countries joining monetary union.

Mr Stoiber described "3.0 per cent as synonymous with a stability culture", and said Germans had a relatively low ownership of property, with much of their money invested in life insurance. Abandoning monetary stability would be "the biggest breach of trust in Germany's history".

Mr Gerhardt described Mr Stoiber as "a brother in spirit" of Mr Gerhard Schröder, the Social Democrat premier of Lower Saxony and possible challenger to Mr Kohl in next year'a elections. Mr Schröder is one of Germany's more Eurosceptical politicians. Mr Gerhardt argues a slight overshooting of the deficit target need not jeopardise the euro's introduction. *Ralph Atkins, Bonn*

ECONOMIC WATCH

Spanish GDP up 2.9%

Spain's gross domestic product rose in the first quarter of the year by 2.9 per cent compared with the same period a year earlier, tha national statistics institute reported yesterday. Most sectors experienced positive and accelerated growth, except for the construction sector, the institute said. Output of capital goods increased hy 7.8 per cent, while construction activity fell 2.3 per cent in the period. Private consumption grew by 2.8 per cent, but puhlic consumption declined by 1.5 per cent. Internal demand grew 1.6 per cent while exports of goods and services grew 11.2 per cent and imports of goods and services rose by 6.4 per cent from the same quarter a year earlier, the institute said. *AP, Madrid*

NEWS: ASIA-PACIFIC

Optimism picks up in Japan

By Gillian Tett in Tokyo

Japan's leading manufacturers are more optimistic than at any time since November 1991, the Bank of Japan's authoritative Tankan survey of business confidence showed yesterday.

The upheat picture startled the financial markets and fuelled hopes that the economy is expanding steadily – in spite of recent tax increases.

It also raised speculation that the survey could pave the way for a rise in interest rates. The 10-year September benchmark Japanese government bond dipped 136 basis points to close at 123.05. December euroyen futures fell 16 basis points to 98.9 per cent. At this level, traders expect interest rates to be 1.1 per cent in December, compared to their current, historic low of 0.5 per cent.

Mr Marshall Gittler, head of economic research at SG Warburg in Tokyo, said: "This survey came as a bolt from the blue – it caused panic selling in the bond and futures markets."

However, the survey also showed that many non-manufacturing companies remain distinctly gloomy. Consequently, most economists take the view that the Bank of Japan is unlikely to raise rates until at least the autumn.

The quarterly Tankan survey is the most authoritative guide to short term economic trends in Japan and is used by the bank in making its interest rate decisions.

The June survey is particularly significant because it provides one of the first signals about how the economy has reacted to the controversial rise in consumption tax from 3 per cent to 5 per cent in April.

Economists had expected the Tankan to show manufacturers became gloomier between March and June, since it was feared that the tax increase had dampened domestic demand. Some also thought the recent rebound in the yen would dampen exporters' optimism, since it makes their goods more expensive in world markets.

But the balance of manufacturers expressing optimism, compared with those expressing pessimism, was plus 7 in June. This is the highest figure since November 1991 and well above market forecasts of 0. Ms Jane Berryman, an economist at Technical Data, a research group in Tokyo, said: "To call this an eye-popper is an understatement."

Some economists hope this upturn indicates that the Japanese economy is heading for the type of low inflation growth seen in the US. Mr Kenneth Courtis, chief economist for Deutsche Bank in Tokyo said: "This could be the start of Japan's own 'Goldilocks' recovery."

But the data showed that the current picture remains distinctly patchy. Smaller manufacturers were much less upbeat than their large counterparts: sentiment in that sector was minus 7 in June, compared with minus 8 in March. And non-manufacturers in fact became gloomier: sentiment among large companies fell from minus 6 to minus 7 in this period, and from minus 9 to minus 11 among small groups.

This partly reflects the problems in the financial sector. However, Japan's broader programme of deregulation is also thought to be hurting many of the smaller and medium sized companies, as growing competition allows larger companies to win more market share.

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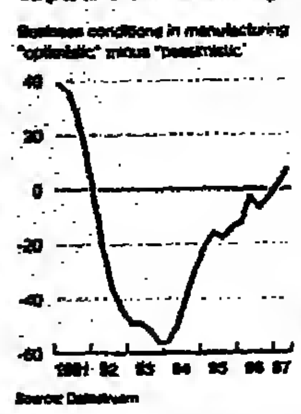
Japan: Tankan survey



Source: Datastream

Mining groups oppose curbs in Indonesia

By Manuela Saragosa in Jakarta

Mining companies operating in Indonesia are set to fight demands by the Indonesian government giving the state unprecedented control over equity and profits in new mining projects. The move, they say, threatens to drive away foreign investment in the sector

The Indonesian Mining Association, which represents both local and foreign interests, has urged the ministry of mines and energy to rethink its moves to revise a batch of contracts involving some 240 new mining projects which had already been agreed by all parties earlier this year. These contracts "have already been initialed, money has been spent [to meet the terms]. We cannot accept changes now," said Mr Benny Wahyu, the association's secretary general.

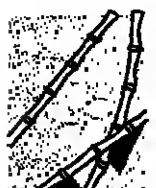
Executives at foreign mining companies have warned that the new terms will scare off foreign investment in Indonesian mining, severely damaging an industry which accounts for about 7 per cent of gross domestic product and is driven by foreign capital and expertise. The government's demands show "a strong nationalistic streak: the proposed terms are likely to kill off the industry," said a foreign Jakarta-based mining executive who described the revisions as "contradictory and vaguely worded".

The revised terms would allow the Indonesian authorities to demand an apparently unlimited quantity of equity in any foreign-owned mining project, require foreign mining companies to raise additional capital on the domestic exchange and force western mining companies to breach timely disclosure laws in their home countries by demanding that they make all their data available to the Indonesian authorities before releasing it to the public. They would also bar foreigners from working in positions below that of a director at companies which have operated in the country for more than six years.

Indonesia's mines and energy minister tabled the revised terms earlier this week but did not clarify whether they were negotiable. Initially, the ministry had indicated foreign mining operators were required to sign the revised contracts by yesterday, but it has since extended the deadline until July 29 without explanation. Foreign mining companies had warned the authorities that companies were likely to refuse to operate under the new terms.

The government's moves come amid nationalistic calls to increase control over the mining sector following the scandal surrounding the Busang field in east Kalimantan, subject of a tawdry tussle for control between presidential children.

Taiwan tries to come to terms with HK handover



Taiwan authorities will put on public display for the first time tomorrow the original 1842 Treaty of Nanjing that forced China to surrender Hong Kong to British control, to commemorate the end of colonialism on Chinese soil. On Saturday, tens of thousands of Taiwanese will march in a mass demonstration in Taipei called "Say No to China, Say Yes to Taiwan" to show Taiwan is already an independent country and to oppose unification with China along the lines of the "one country, two systems" model devised for Hong Kong.

On the eve of Hong Kong's reversion to Chinese sovereignty, Taiwan is watching events in the territory with feelings of ambivalence. Nationalist pride is tinged with apprehension that one master may be replaced by another perhaps less benevolent – and with stated ambitions to fold Taiwan under the wing of the motherland next.

This ambivalence is embodied in the very title of the Nanjing Treaty exhibition at Taiwan's National Palace Museum, repository of imperial Chinese treasures spirited away before the 1949 communist takeover. "Humiliation and revival from the Treaty of Nanjing to the Japanese Surrender: a special exhibition of diplomatic documents concerning the Republic of China's struggle for freedom and equality" recalls China's mistreatment at the hands of foreign oppressors but also hints at Taiwan's hard-won democratic transformation in recent years.

Officially, Taiwan's ruling Nationalist party advocates eventual reunification with China, but only after China becomes as democratic and prosperous as Taiwan.

The views of ordinary Taiwanese toward Hong Kong's impending transition and its significance for Taiwan vary, but most evince a wariness wherever they stand on the political spectrum.

"After Hong Kong returns to Chinese sovereignty, the people in China and Hong Kong believe Taiwan will be next," said Ms Chou Hui-chen, a graduate student. "But in Taiwan, the percentage of people who want to reunify is actually quite small, especially after last year's missile tests."

Ms Chou says she favours "conditional reunification" some day. "If Taiwan people can maintain their own political system and living standards then it should be fine. But if reunification means sacrificing democracy and freedom then I am against it," she said.

Mr Richard Hsiao, who works at a bank, does not see Hong Kong as a model for Taiwan. "My family has always strongly believed Taiwan should be independent," he said. "My parents want nothing to do with China. They even forbid me to marry a mainlander." In Taiwan the term "mainlander" refers to those who fled the Chinese mainland following China's civil war which ended in 1949.

Ms Huang Chu-li, a secretary, has relatives in Hong Kong and is not especially concerned about the handover but will be keeping a close eye on developments. "I don't think there will be much impact on Taiwan, although we're not too sure about economic and trade relations. Anyway I'm going to visit Hong Kong on my holiday next month just to take a look around."

Mr Jeremy Chen, a chiropractor, said Taiwan is watching very closely to see how China treats Hong Kong. "If things go smoothly then we will be able to relax, and maybe talk to China about reunifying eventually. But if China interferes too much in Hong Kong affairs, abuses the freedom and civil rights of Hong Kong people, or doesn't allow Hong Kong to govern itself then people in Taiwan will be afraid."

Taiwan may prefer to be an independent country, but this may be impossible, Mr Chen said. "We have to be realistic – unfortunately China likes to use force and nobody wants a war. Look – China won't even let us join the World Health Organisation, which has nothing to do with politics, much less the United Nations. Ultimately we don't have a choice – we'll probably have to reunify someday. But it will take years and years – first we have to see what happens in Hong Kong and wait until China's living standard is equal to Taiwan's."

Laura Tyson


Protesting supporters of Taiwan independence burn a Chinese flag Reuter

ASIA-PACIFIC NEWS DIGEST

Donors pledge $6.7bn to India

International aid donors meeting in Paris yesterday pledged $6.7bn to India for the current financial year, about the same as last year's $6.6bn. The Indian government said in a statement released in New Delhi: "India's economic reforms received strong support and endorsement from the community of bilateral and multilateral donors assembled in Paris".

The annual India Development Forum meetings in Paris on Tuesday and yesterday were held under the aegis of the World Bank and attended by representatives of the Asian Development Bank, European Commission and International Monetary Fund.

The $6.7bn pledge was in line with the expectations of Indian officials, who said the country had stepped up utilisation of external assistance in the 1996-97 fiscal year to March 31. The 15-party centre-left coalition of Mr I.K. Gujral, the prime minister, has pressed ahead with free-market reforms initiated in 1991 when India faced a balance of payments crisis. *Reuter, New Delhi*

Reserve Bank reduces interest

The Reserve Bank of India, the country's central bank, yesterday cut its bank rate by one percentage point from 11 per cent to 10 per cent with immediate effect. Analysts see it as a move to boost further a sluggish economy. Market rates are expected to move in line with the RBI's bank rate, the level at which the central bank lends to commercial banks, continuing a downward trend. This was the first occasion the RBI had used this lever to signal a general cut in rates since it unveiled its credit policy in April. This week, the government said inflation was continuing its downward trend, with the wholesale price index falling to 5.83 per cent from 7.99 per cent in January. *Khozem Merchant, New Delhi*

N Korea to discuss agenda

North Korean leaders have agreed to help arrange four-nation peace talks aimed at closing the books on the 1950-53 Korean War, officials in Seoul said yesterday. "Pyongyang has accepted a suggestion that senior officials from the two Koreas, the United States and China meet around early August to set an agenda and other details for the peace talks," the Seoul government said.

Any settlement would represent a breakthrough in replacing, with a peace treaty, the armistice that ended the war. Wednesday marked the 47th anniversary of the outbreak of the conflict. Representatives of North and South Korea and the US agreed in New York earlier this month that a preparatory meeting of the four-party talks, also to include China, would take place in New York or Geneva next month or in August.

Rodong Sinmun, the North's official daily newspaper, said Pyongyang would be ready to discuss peace "as long as the enemies do not provoke a war. The Korean People's Army is keeping an eye on the warmongers," it added.

North Korean watchers said acceptance of peace talks represented a reversal of North Korea's previous stand that any treaty to secure peace on the Korean peninsula must be signed directly by Washington and Pyongyang, excluding South Korea. *Reuter, Seoul*

Patten warning on clampdown

By Peter Montagnon and John Ridding in Hong Kong and Lionel Barber in Brussels

Mr Chris Patten, governor of Hong Kong, yesterday warned the incoming Chinese administration against coming down with a heavy hand against protests on the night of the handover. Demonstrations are planned against the abolition of the legislature elected under his democracy reforms and its replacement with an appointed provisional body.

"It's in everybody's interest to ensure that the arrangements for the handover are able to confirm Hong Kong's reputation for moderation and responsibility," he said in an interview.

Mr Patten warned that a decision by most European Union countries to send ministers to the Chinese ceremony to swear in the provisional legislature would further encourage China to disregard international pressure on human rights.

Europe "fell apart" on the UN human rights resolution criticising China this spring, which France refused to support. "It may well go in several different directions on this too," he said. That would leave the US and UK as the only main countries whose ministers were determined to stay away from the swearing-in.

France has already signalled its intention to send senior representatives to attend the Chinese ceremony. Even the Netherlands, traditionally an outspoken defender of human rights, is expected to attend because it holds the rotating EU presidency.

Mr Patten said he could understand countries' concern at not wanting to boycott a ceremony which would also include the swearing-in of Hong Kong's new chief executive, as well as the territory's judiciary and top administrators.

The British Foreign Office said yesterday that the UK's consul-general in Hong Kong, Mr Francis Cornish, and Mr Hugh Davies, who heads Britain's team on the joint liaison group with China, would attend.

The Foreign Office said, however, that this in no way implied approval of the provisional legislature, and there had never been any question of British ministers attending the swearing-in ceremony.

Mr Patten defended Britain's apparent change of heart in agreeing to allow a further advance guard of Chinese troops to enter Hong Kong a few hours before the midnight handover. The troops would come in in buses with their weapons stowed. "If you'd had large numbers more arriving in Hong Kong earlier in personnel carriers, that might have been rather differently perceived."

IMF ready for talks in Manila

By Justin Marozzi in Manila

An International Monetary Fund delegation arrived in Manila yesterday to start negotiations for a four-month extension of the Philippines' programme, amid mounting concerns over the the country's fiscal position.

Mr Shigemitsu Sugisaki, deputy managing director of the IMF, will also meet President Fidel Ramos and Mr Roberto de Ocampo, the finance minister, next week to thrash out the final details of what observers expect to conclude in a new arrangement with the fund.

The country narrowly failed to complete its three-year $684m programme – which expired on Monday – after failing to pass the remaining portion of the comprehensive tax reform programme (CTRP) before Congress adjourned earlier this month. The CTRP, designed to ensure dependable revenue streams as privatisation proceeds dwindle, is the last structural reform required under the IMF programme.

Without a comprehensive tax system in place the country is now beginning to feel the pinch, as the government reduces public sector surplus forecasts for the year. "The mere delay in passing the CTRP is already sending concerns," said Mr Joven Balbosa, economist at W.I. Carr, the stockbroker. "Last year, the government was forecasting a [1997] budget surplus of 15bn pesos ($570m), in March it scaled that back to 13bn pesos, and now it's looking at about 7.5bn pesos. This is a real ride."

Over the weekend, Mr Dante Canlas, deputy director general of the National Economic and Development Authority, said the government was looking at options to avoid hitting a budget deficit for 1997, after admitting the surplus of 4.9bn pesos for the first five months appeared "weak" against likely revenue shortfalls.

The IMF team will examine the country's fiscal revenue, foreign investments, balance of payments position, and national income and prices.

It will also assess the government's position on repaying the country's three main oil companies – Petron, Shell and Caltex – from the oil price stabilisation fund, the buffer facility used to absorb fluctuations on the world market before the industry was liberalised in February.

NEWS: WORLD TRADE

US aircraft maker seeks to persuade European Commission to drop takeover objections

Boeing may alter exclusive supply deals

By Michael Skapinker, Aerospace Correspondent

Boeing is considering altering long-term exclusive aircraft supply agreements with three airlines as a way of persuading the European Commission to approve its planned takeover of McDonnell Douglas.

Mr Karel Van Miert, the European Union competition commissioner, has described the agreements with American, Delta and Continental Airlines as unacceptable. Under the agreements, the airlines have appointed Boeing as their sole aircraft supplier for 20 years, in return for price concessions.

Mr Van Miert has told Boeing that he objects to the planned takeover of McDonnell Douglas, announced in December, on three grounds.

The first is that the enlarged Boeing will control two-thirds of the worldwide civil aircraft market, making it difficult for Airbus Industrie, the European consortium, to compete.

The second is that the Commission believes Boeing will use McDonnell Douglas's federal defence funding to support development of civil aircraft.

The third objection is the exclusive deals.

Although Boeing has said the deals are unrelated to the merger, and are an internal US matter, the company is believed to be ready to offer the Commission concessions on the issue. One possibility being considered is shortening the length of the agreements.

Even if the agreements are changed, the three US airlines are unlikely to buy Airbus aircraft as they have decided to purchase Boeing aircraft only as a way of reducing maintenance and training costs.

Although Boeing initially played down the threat of action from the Commission against the takeover, it has recently shown greater anxiety over what the EU might do.

The Commission has the right to impose a fine equivalent to 10 per cent of the enlarged Boeing's $48bn turnover if it goes ahead with the takeover without the EU's approval.

Boeing officials have warned Mr Van Miert that he risks provoking a transatlantic trade war if he blocks the takeover.

However, at the Paris air show last week, Mr Ron Woodard, Boeing'e head of commercial aircraft, said he hoped a trade war would prove unnecessary.

● The Tunisian flag carrier, Tunis Air, yesterday said it planned to buy 19 aircraft between 1997 and 2005, including nine over the next three years. The fleet plan, which took three years to be set up, was to replace some of the company's ageing Boeing 727 and 737-200.

Russia and China to sign $20bn trade deal

By Tony Walker in Beijing

Russia and China are set to conclude agreements this week aimed at boosting two-way trade to $20bn a year by 2000, from last year's $6.8bn.

The agreements, including a multi-billion-dollar deal to exploit Siberian natural gas, are due to be signed tomorrow by Mr Victor Chernomyrdin, Russia's prime minister, and Mr Li Peng, his Chinese counterpart.

Mr Boris Nemtsov, Russia's first deputy prime minister in charge of fuel and energy, arrived in China this week to hammer out the agreements covering oil and gas extraction and railway transport, along with the framework trade deal.

The official Xinhua news agency said, in talks with Mr Li, Mr Nemtsov had urged expansion of bilateral trade, saying present trade volume did not correspond with the size of the two countries.

The Russian embassy said a "framework" trade agreement would be targeted at "increasing the Sino-Russian trade volume to $20bn in the near future".

An embassy official said the two sides were engaged in difficult last-moment negotiations on the various trade deals. "The final figures are not yet agreed, or who will pay and how much," he said. "One wants more, the other wants less."

Russia and China are believed to be wrangling over details of the agreement to exploit Siberian natural gas and oil and its transshipment to China by pipeline.

China, which is less and less able to meet demand for oil from its own resources, has embarked on a drive to secure supplies abroad. Siberian oil and gas would help overcome the deficit.

China and Russia are negotiating the supply of a Russian-built nuclear power station in southern Jiangsu Province. Mr Chernomyrdin is also certain push the case of Russian contractors who have put up bids to supply components for the first stage of the Three Gorges hydro-power dam on the Yangtze.

A Russian consortium is bidding for a contract to supply 14 generators with a total installed capacity of 9,800MW for the Three Gorges power station.

The China Yangtze Three Gorges Development Corporation is reviewing tenders for the generating units and has said it planned to select the winning bid by late June or early July.

Other groups in the running include Siemens of Germany and GE Canada; the Anglo-French group GEC Alsthom; ABB; a Japanese group; Impsa of Argentina and Westinghouse of Canada. The Three Gorges hydropower and water conservancy project is scheduled for completion in 2009.

Concern grows over digital copyright delay

By Alice Rawsthorn

Concern is growing in the music industry about the lack of progress in implementing last year's agreement by the World Intellectual Property Organisation (WIPO) to extend copyright law to digital distribution systems.

Digital copyright is top of the agenda at a meeting of senior record executives organised by the International Federation of the Phonographic Industry (IFPI), which represents the world's record companies, in Lisbon this week.

The prospect of distributing sound recordings over the internet and other digital systems, such as high-speed cable television and advanced telecommunications networks, is regarded as an exciting opportunity for the industry.

However, there is widespread concern about the dearth of legal protection for intellectual property in the digital domain. Record companies welcomed the announcement last December that a WIPO diplomatic conference in Geneva had endorsed two treaties to provide the protection needed.

The treaties specified that the 150 countries belonging to WIPO should amend copyright law to ensure that the legal protection given to books, music and computer software should apply whenever those properties are transmitted by digital means, thereby entitling the author, publisher and performer to receive royalties.

Six months later, no government has ratified the treaties, according to the IFPI. Ms Frances Moore, IFPI's director of European affairs, said the issue should be made a "top priority" for governments as the music industry "desperately needs investment security in the information society".

At the Lisbon meeting, record executives will discuss ways of stepping up pressure on governments. The next step should come in autumn when the European Commission is to publish a draft directive on digital copyright.

WORLD TRADE NEWS DIGEST

US loses milk hormone vote

The European Union has fought off a US attempt to allow the use of a genetically engineered growth hormone that encourages cows to give more milk.

A United Nations food standards body, Codex Alimentarius Commission, meeting in Geneva, voted to defer a decision on the contentious issue for two years to allow in-depth scientific research. The commission – a joint World Health Organisation and Food and Agricultural Organisation body – sets international food safety standards and meets every two years. Under international trade rules, higher standards must be justified scientifically or risk challenge as protectionism.

The debate pitted the 15-member EU against the US, also backed by Canada, which supported a commission proposal allowing the use of genetically engineered growth hormone to boost milk production in cows. This was also opposed by international consumer groups as unnecessary and possibly unsafe. The dispute could potentially strain transatlantic trade relations if it became more heated, diplomats said. *Reuter, Geneva*

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US joins Timor car dispute

Indonesia yesterday refused a US request for a World Trade Organisation panel to rule on whether Jakarta's "national car" programme violates international trade rules. The US request, which follows establishment of a panel earlier this month to examine similar complaints by Japan and the European Union, is likely to be repeated at the next meeting of the WTO's dispute settlement body on July 30. Under WTO rules, Indonesia must agree the second time of asking.

All three complaints relate to generous tax breaks given only to Timor cars produced by a joint venture between a company controlled by President Suharto's youngest son and Kia Motors of South Korea. The US, EU and Japan say the programme is discriminatory and has hurt their sales in the growing Indonesian market. Jakarta's aim appears to be to delay the WTO procedure as long as possible so that its domestic car industry is well established by the time it is forced to implement any adverse WTO ruling, probably in 1999.

In another dispute, the EU refused a first request by Brazil for a panel on EU quotas for poultry meat, which Brazil says fail to comply with a 1993 bilateral agreement on compensation for reduced exports of oilseeds to the EU. *Frances Williams, Geneva*

Brussels plans patents law

The European Commission yesterday approved a green paper on simplifying the European patent system. The Commission wants to hear opinions from industry and governments on the need to replace the 1975 Community Patent Convention with full-scale Community legislation to enable businesses to file only one patent application for the whole European Union. "The present system of patents in the Union is complex and expensive, and does not provide a unitary patent for all the member states," said Mr Mario Monti (left), the commissioner who initiated the consultation paper. Most companies still file patents with separate member states as the current European application has to be filed in the language of each member country and the validity of a European patent is in doubt for lack of legal test cases and ratification in all member states.

The Chartered Institute of Patent Agents puts the cost of obtaining a typical 20-page patent in eight countries through the European Patent Office at about $24,000. About a third of this is patent office fees, a third legal fees and a third translators' fees. The European Chemical Industry Council said that filing and maintaining a patent in eight EU member states actually costed about $120,000, or almost 10 times as much as the $13,000 cost in the US. *Sander Thoenes, Brussels*

Mexico imposes syrup tariff

Mexico yesterday imposed anti-dumping tariffs on imports of US corn syrup to protect the local sugar cane industry. The tariffs, from $63 to $175 a tonne, were imposed following complaints from sugar cane producers, who argued they could not compete with imports of high fructose corn syrup made from subsidised US corn.

In 1996, Mexico imported 350,000 tonnes of corn syrup despite the existence of a 300,000 tonne stockpile of locally produced sugar. Producers claimed subsidised US imports put 200,000 farm jobs at risk. *Leslie Crawford, Mexico City*

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Blair firm on deadline for N Ireland

By Robert Peston, Political Editor

Mr Tony Blair, the prime minister, yesterday pledged that new arrangements for governing Northern Ireland would be agreed by the middle of next year even if Sinn Féin remained outside negotiations due to begin in September.

"The settlement train is leaving, with or without Sinn Féin," Mr Blair insisted in the House of Commons, spelling out the timetable and conditions for participation by Sinn Féin in formal all-party talks. Sinn Féin is the political wing of the Irish Republican Army.

Sinn Féin no longer had any justification for its fears that the government would continually erect barriers to its involvement, Mr Blair said. He had "dealt straight with them [Sinn Féin]" and he expected "straight dealing in return".

His attempt to pile pressure on the IRA to declare a renewed ceasefire was aided when Mr John Hume, the leader of the moderate nationalist Social Democratic and Labour party in Northern Ireland, made clear that he now supported the idea that a settlement could be reached without involving Sinn Féin.

If a Northern Ireland agreement were reached in conditions of peace "all the better", Mr Hume said, but "if it is not, let the rest of us get together and work quickly and strongly with both governments [British and Irish] to reach that agreement".

There was also clear relief in the British government when Mr David Trimble, leader of the Ulster Unionist party, gave a cautious welcome to the initiative, while making clear his deep doubt that any new IRA declaration of a ceasefire would be genuine.

"We agree that any invitation to Sinn Féin/IRA to enter the talks must be based on clear evidence of an unequivocal ceasefire," Mr Trimble said. His party is the biggest pro-British party in Northern Ireland.

Meanwhile Mr William Hague, the new leader of the opposition Conservative party in Britain, confirmed that he intends to stick to the policy of his predecessor, Mr John Major, that Northern Ireland should be a non-partisan issue.

Mr Major had a meeting with Mr Blair last week to discuss moves towards a settlement. The government views the former prime minister as an important potential ally in efforts to prevent unionist sympathisers in the Conservative party attempting to derail the peace process.

There was no response yesterday from Sinn Féin to the new government initiative. Although there are no formal talks taking place between the government and Sinn Féin, contacts were said to be continuing through intermediaries.

● Police in Belfast, the capital of Northern Ireland, yesterday seized two fully-loaded high-powered rifles in a house on the outskirts of the city. One man was arrested in a follow-up security operation.

The AK-47 rifles were seized during a security operation following the taking over of a house by armed men. The police said a "major terrorist attack" had been foiled. Assistant Chief Constable Bill Stewart said: "It is clear this was a determined attempt by terrorists to kill or maim. It is clear lives have been saved today."

United Technology Automotive, a US-owned car components company, is to close its factory in Londonderry, the second largest city in Northern Ireland, with the loss of 600 jobs, Jimmy Burns writes.

The company said one of the main reasons was the "everincreasing pressure on prices" which had brought heavy losses in recent years. Between January and August this year, the company was forecasting a loss of $3m following a trend over the last three years.

Local politicians and trade union officials condemned the decision and said they would lobby members of the House of Commons and European parliament to try to minimise effects on the local population.

Mr Adam Ingram, minister for the Northern Ireland economy in the British government, said he would try to convince UTA to reverse its decision. He added that there was no evidence to support local trade union claims that work was being transferred to the company's plants in Spain and Portugal.

UTA's move is a setback for what, in recent months, had been continuing business confidence in Northern Ireland.

PA News

Margaret Gibney, the girl from Northern Ireland whose letter to Tony Blair about her hopes for peace was revealed on TV when the prime minister visited the US, arrived in London yesterday. She spent more than an hour in the premier's official residence at 10 Downing Street

Arms team faces maze

IRA has hidden missiles and Kalashnikov rifles

The latest joint Anglo-Irish proposal on "decommissioning" the weapons of paramilitary groups in Northern Ireland draws heavily on the report on the arms issue produced last year by a three-man international body led by Mr George Mitchell, the former US Senate majority leader. It is specific on the structures that need to be put in place to initiate decommissioning but holds back on the detail of implementation.

If there are any lessons to be drawn from other recent conflict areas, ranging from South Africa to Guatemala, it is that arms are not handed over until, and only if, there is a political settlement.

"Both governments share the view ... that voluntary and mutual decommissioning can be achieved only in the context of progress in comprehensive and inclusive political negotiations," the Anglo-Irish proposal states.

At the heart of a complex mechanism for negotiations will be an independent commission of legal and military experts, which "where appropriate shall be given access to the technical expertise of the British and Irish security forces."

It is the commission that will decide on what form the arms handover should take as well as being responsible for its monitoring. But during its deliberations, it will regularly report to a committee of the leaders of all the parties in the talks which in turn will have two sub-committees reporting to it: one will advise on the decommissioning process, the second will be charged with related confidence-building measures such as transfer of prisoners.

"Those parties with some record of insight relating to the paramilitary organisations, who alone have the capacity to decommission, have an obvious importance in relation to the agenda," the proposal states, in an implicit reference to the role that might be played by Sinn Féin, political wing of the Irish Republican Army.

Within Northern Ireland, the IRA is the organisation that remains the biggest potential impediment to the peace process and will therefore be the focus of the decommissioning.

As an organisation, it holds a secret armoury which, in volume and potential, far outweigh anything held by any rival paramilitary organisation. The IRA's arsenal includes large quantities of Semtex and other explosives, Kalashnikov AK-47 rifles, grenades, state-of-the-art high velocity "sniper" rifles, handguns, machine-guns, and hand-held missile systems, all with ammunition.

The security forces have no foolproof estimate of the extent of this weaponry hidden in secret caches on the UK mainland and on both sides of the Irish border.

Security sources concede that the success of any arms handover will depend on the IRA's willingness to provide information on the remaining secret caches.

The IRA's weapons distribution system has been devised to ensure maximum internal security and secrecy. Once purchased, the weapons are held in underground bunkers, then moved to intermediate "hides" before being hidden at a final destination.

The system is supposed to be tightly controlled by the IRA's quartermasters but with no single "volunteer" holding the weapons, or ever knowing their precise whereabouts.

Jimmy Burns

'Minimal risk' in BSE cow burning

By Maggie Urry in London

The risks of spreading BSE or "mad cow disease" to humans through burning the remains of cattle in power stations would be "astonishingly" small, the semi-state Environment Agency said yesterday.

Its report is a step towards disposal of 220,000 tonnes of meat and bone meal and 122,000 tonnes of tallow from 1.5m cattle slaughtered in the scheme to remove animals over 30 months old from the human food chain, after last year's BSE crisis.

Mr David Slater, the agency's environmental protection director, said a quantitative assessment of risks carried out by the agency had used the most conservative assumptions. It concluded that the risk was insignificant for all the disposal options the agency examined. These included burning the remains, which are currently being stored, in power stations or in specially built incinerators, or disposing them in landfill.

Earnings draft is move towards harmonisation

By Jim Kelly, Accountancy Correspondent

International harmonisation of accounts took a significant step forward when the Accounting Standards Board yesterday published draft plans to bring the UK into line with the rest of the world in the calculation of earnings per share (eps).

The minor technical changes – which are unlikely to affect greatly the way UK companies calculate the indicator – reflect the fact that standard-setters in the US and at the International Accounting Standards Committee have moved towards the UK method over recent years.

While the new standard encourages companies to look at other performance measures besides earnings per share – rather than relying on just one – the achievement of global harmonisation would reflect the continued importance of the eps measure to shareholders and analysts.

Mr Allan Cook, technical director of the ASB, said that if the draft was adopted as a standard it represented a "small but useful step" towards harmonisation. A binding standard could be in place by the end of 1998.

The US and IASC standards on eps are based on the work of a joint project between the standard-setters – an increasingly common way in which the leading regulators are securing global harmonisation by pooling resources.

Eps is the profit in pence attributable to each ordinary share in a company based on the consolidated profit for the period after tax and other deductions. The technical changes proposed affect the calculation of the number of shares, not the profit figure.

"The US and IASC have moved towards the UK on this over time. The UK is now moving a small distance to meet them," said Mr Ron Paterson, technical partner at Ernst & Young in the UK.

"The eps is a very important figure – and I think the ASB underestimates that importance. They are quick to scoff but as a rule of thumb it is useful to illustrate trends," he said. The ASB has warned that users of accounts can rely too much on so-called "magic numbers" such as eps.

The draft standard concentrates on how to calculate the number of shares used in the computation of basic earnings per share and diluted earnings per share. In the case of the basic number, it sets out how the number of shares should be adjusted to reflect changes in the number of ordinary shares, such as a bonus issue.

In the case of the diluted figure, it sets out the sequence in which dilutive shares – such as preference shares – should be considered in arriving at the weighted average number of shares used in the calculation.

Top executives hear case for government's $5bn 'welfare to work' scheme

Chancellor woos business chiefs

By Robert Taylor, Employment Editor

The business community will be vital to the success of the government's flagship "welfare to work" programme for the long-term unemployed, Mr Gordon Brown, the chancellor of the exchequer, told a summit meeting of 38 chairmen and chief executives yesterday.

The £3bn ($4.95bn) five-year scheme, to be launched nationwide next April, will be funded by the windfall tax on the profits of privatised utilities. It is seen by Mr Brown as the centrepiece of the government's employment strategy.

Among those attending the meeting were Mr Peter Birch, Abbey National chief executive; Sir Ian Prosser chairman and chief executive of the Bass brewing group; Mr Brian Moffat, British Steel chairman and chief executive; Mr Ian McAllister, chairman of the UK offshoot of Ford; Sir Richard Greenbury, Marks and Spencer chairman; Dr Walter Hasselkus, Rover group chief executive, Mr George Bull, chairman of Grand Metropolitan and Mr David Sainsbury, J Sainsbury chairman.

None of the employers, brought together by Mr Geoffrey Robinson, the paymaster general, criticised the proposed scheme, although some welcomed the six-month consultation period before demonstration projects start in January 1998 in 15 areas.

Members of the task group, headed by Sir Peter Davis, Prudential group chief executive, will be announced shortly and financial details of the plan will come in Mr Brown's Budget next Wednesday.

Mr McAllister said Ford would take on an extra 100 young people as part of its employment expansion. Sir Richard Greenbury said he wanted to talk separately with Mr Brown on what Marks and Spencer could do.

The government's "new deal" plan for employers will pay them a subsidy of £60 a week for six months for each unemployed young person they hire for quality training and work experience. Ministers hope a substantial number of the 250,000 people aged less than 25 who have been out of work for more than six months will be placed with private sector companies.

But if they choose not to go on the scheme, the unemployed can choose to work in the voluntary sector or on an environmental task force or do further education and training. Mr Brown said there would be "no fifth option of staying at home".

"Past schemes failed because they did not properly engage the business community," said the chancellor.

Mr David Blunkett, the education and employment secretary, added: "This is not a government programme. It is a partnership with business."

British Airways cabin crew vote strongly for strike

By Michael Skapinker and Robert Taylor

British Airways faces the prospect of severe disruption to summer flights after its largest cabin crew trade union voted overwhelmingly to hold a strike over pay.

The Transport and General Workers' Union, which represents 9,000 of BA's 12,000 cabin staff, said that 75 per cent had voted and that 73 per cent of those had voted for a strike.

Mr Robert Ayling, BA's chief executive, said he did not believe his staff wanted to strike and said the company was being "held back by 1970s trade unionism". BA shares fell 13 pence to 687½ pence in London.

Mr Ayling said cabin crew yesterday received letters warning them that they would lose their staff travel discounts for three years and be denied promotion if they took action. He said BA had staff ready to take the place of strikers.

The union is confident that it will also win overwhelming support from its 9,000 members among BA's ground staff including baggage handlers, clerical and check-in employees. They are being balloted separately on strike action. The ballot is in protest at the company's decision to sell its catering services at London's Heathrow airport. The result is expected on Monday.

The union will have to decide then whether to co-ordinate industrial action between the cabin crew and the ground staff.

That could have a damaging effect on BA's ability to defy any strike call by bringing in new recruits and managers to do the jobs of existing employees.

The union indicated yesterday that it still hoped to negotiate on behalf of cabin crew. The union says the dispute is not about the content of BA's proposed offer to the cabin crew, but about the way in which it has been imposed.

The deal involves restructuring cabin crew members' pay so that they receive more as basic and less as variable pay. BA says the effect would be to increase employees' pensionable pay by between 14.2 per cent and 24 per cent.

Mr Ayling said he would talk to the union again if it "put conflict behind it". He said a rival union, Cabin Crew 89, representing 3,000 staff, had voted overwhelmingly to accept the deal and that the TGWU had walked out of negotiations without explanation.

Colin Beere

Waiting to talk: Robert Ayling wants the union to put conflict behind it

Beer deal likely to face strict conditions

By Ross Tieman and David Wighton in London

Brewing industry executives believe Mrs Margaret Beckett, the chief industry minister, is set to impose severe conditions on the planned merger between Bass Brewers and Carlsberg-Tetley.

Their view is shared by Labour politicians and City of London analysts who say Mrs Beckett's failure to publish a report by the Monopolies and Mergers Commission into the deal arises from strong government objections to further concentration in the industry.

The merger, agreed 10 months ago, would create Britain's biggest brewing group.

"I think if the deal was going to be blocked it would have happened by now," said one executive. "I think basically she is thinking about what sort of conditions she should apply."

Taking control of Carlsberg-Tetley would give Bass around 35 per cent of the UK beer market. Scottish & Newcastle, the current leader, has 29 per cent.

Both Bass and Carlsberg, its Danish partner in Carlsberg-Tetley, say the merger is urgently needed to restore the profitability of their brewing operations after government-inspired industry reforms triggered the emergence of independent pub chains able to extract big discounts from brewers.

Under a complex deal, Bass bought a 50 per cent interest in Carlsberg-Tetley from Allied Domecq last August for £200m ($330m). At the same time, Carlsberg agreed to inject its 50 per cent interest, plus £20m, into Bass Brewers, in exchange for 20 per cent of the combined business.

If the deal is blocked, or any terms imposed are unsatisfactory to Bass, the brewer has the option of selling its stake in Carlsberg-Tetley to Carlsberg for £110m, and of claiming a £30m refund from Allied.

UK NEWS DIGEST

Import volume rises sharply

The UK trade deficit with the rest of the world deteriorated sharply during April as import volumes soared by the highest monthly rate for 16 years. The data may increase pressure on the monetary committee of the newly independent Bank of England, the UK central bank, to raise base rates, currently at 6.5 per cent.

According to figures from the Office for National Statistics (ONS), the total deficit increased from £671m ($1.1bn) in March to £961m in April. The ONS warned yesterday that the data could be a statistical freak, but UK economists reacted with concern because the trade figures corroborated a series of other recent evidence that consumer spending may be getting out of control. The news of the deficit triggered a fall in sterling, but the pound later recovered some of its losses, before closing at 2.8678, down by 0.4 pfennigs. *Wolfgang Münchau, London*

■ CANTRADE HEARING

Trader committed for trial

The currency trader said to be at the heart of a multi-million pound fraud has been committed for trial at the Royal Court in Jersey, largest of the Channel Islands between England and France. Mr Robert Young, who is alleged to have concealed losses totalling $26.7m, says he will deny the 26 fraud charges he faces when the case comes to court. All his deals were placed through UBS subsidiary Cantrade Private Bank, which itself faces 33 fraud charges in the court.

Committal proceedings continue against former Touche Ross partner Mr Alfred Williams (48), and suspended Cantrade manager Mr Peter Stoneman (53). Both face charges relating to the alleged misleading of investors and the falsifying of trading figures. *Philip Jeune, Jersey*

■ GOLD SCHEME PETITION

Vanilla winding-up case put back

The High Court in London yesterday adjourned the case for the winding-up of four companies involved in the operation of Vanilla, a gold accumulation plan which the UK government's Department of Trade and Industry has asked to have wound up in the public interest. The case was adjourned for the DTI and Vanilla, which opposes the petition, to file affidavits. The DTI wishes to wind up the British operation of three companies – Netherlands-based Vanilla Services BV and Vanilla BV and Gibraltar-based Vanilla Accumulation. The department also wishes to have wound up one British-registered company, Vanilla Ltd. *Robert Wright, London*

■ PUBLIC TRANSPORT

Government to boost bus travel

Motorists could face road tolls, higher car parking charges and heavy fines for parking in bus lanes, under government proposals to encourage bus travel. Mr Gavin Strang, transport minister, plans to use a "carrot and stick" approach to encourage motorists to leave their cars at home and use buses. The government is expected to introduce legislation in this session to re-regulate the bus industry, and to give local authorities new powers to encourage bus travel. *George Parker, London*

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ARTS

Dear Batman,

I am writing because I have come into a large inheritance from a maiden aunt, beqneathed with the condition that half the sum must be given away to a "neglected charitable cause."

I hava decided, after taking soundings from friends and fellow film critics, that no cause in the modern world is more deserving than the immediate and comfortable early retirement of yourself and Robin.

I am therefore offering to use tbe sum partly to pay off the mnrtgage on Wayne Manor, partly to buy out the licensees to your acreen legend, Warner Brothers. In your new film Robin, who is called "Dick" for reasons I find confusing, and the newly recruited Batgirl (Alicia "Clueless" Silverstooe) battle with an over-acting Uma Thurman, as Poison Ivy, and an under-visible Arnold Schwarzenegger.

In the role of Mr Freeze, the erstwhile hero of *Conan The Barbarian* and *Commando* must wear a silver-painted face and a costume somewhere between RoboCop and Father Christmas. When not moving about, or trying to, in an ensemble of blinding metal, twinkling lights and chrome-alloy pixie hood, he must go "Ho ho ho" in Stakhanovite enthusiasm at his own dialogue, which plays puns on all things gelid: "Tchill out!", "Cool!" etc. Then he must zap everything in sight, at which points you try to zap him back in return.

The film is two hours of witless noise, senseless action and merciless over-production. Where previous director Tim Burton lent Gotham City a wry *noir* stylishness, Joel Scbumacher operates on the principle that drove the original Goths and Vizigoths: hrainless, omnivorous persistence. If something is standing, destroy it. If something does not work, replace it instantly with something else (which does oot work). Never "build" – a scene, a mood or a storyline. And accompany everything with large gestures, florid stunts and bloodcurdling din.

The 10-year-olds sitting in my row seemed as fidgety as some of the adults. This is just as well since my small neighbour's sudden stirrings woke me up on the two occasions I fell asleep. One was when you and Robin were chasing the villains all over the screen to loud music. The other was when you and Robin were chasing the villains yet again to more loud music.

Sometimes, during the two hours' traffic chaos, you stopped and spoke dialogue. There was an almost audible sigh in the theatre of "Thank God." Your impersonation of George Clooney, the cbarismatic actor from *ER*, is neat and engaging. Also, these quieter scenes allowed the lovable Alfred (Michael Gough) to cough respectfully in the background, although the new film posits the alarming possibility that the cough may be a health concern. (Suhplot: Can ex-chemist Mr Freeze be forced to yield a cure?)

Broadly, though, we look with dread on the prospect of another film in this increasingly raucous and graceless series: a prospect which can only be prevented if you take up my generous, limited-period retirement offer.

Thank you for your attention,
Best wishes, Nigel Andrews

★

love jones is a bat-free zone and in that context sheer bliss. The plot about two upscale young black Chicagoans (Nia Long, Larenz Tate) loving, leaving each otber and then re-uniting, is repeated three times, which is one too many. But writer-director Theodore Witcher has an eye and ear for the higher absurdities of chit-chat among the artistic set: he is a struggling writer, she a likewise photographer. And the film dwells tenderly on the accident-prone mechanics of human mating rituals, from phone calls that go wrong to rival romances that go problematically right. Droll, thoughtful, endearing.

★

Any film that asks you to come in on Monday morning to contemplate "the absence of the Oedipus complex in the Antilles" deserves at least a prize for chutzpah. The British director Isaac Julien, who made *Young Soul Rebels*, is black and gay and naturally gravitates towards heroic minorities. He gives us a one-man heroic mioority in *Frantz Fanon: Black Skin, White Mask*, a 70-minute homage to the Martinique-born, France-edncated psychologist-philosopher who, you may recall, wrote books on racism, espoused the FLN in Algeria and was exiled to die of leukemia in 1961.

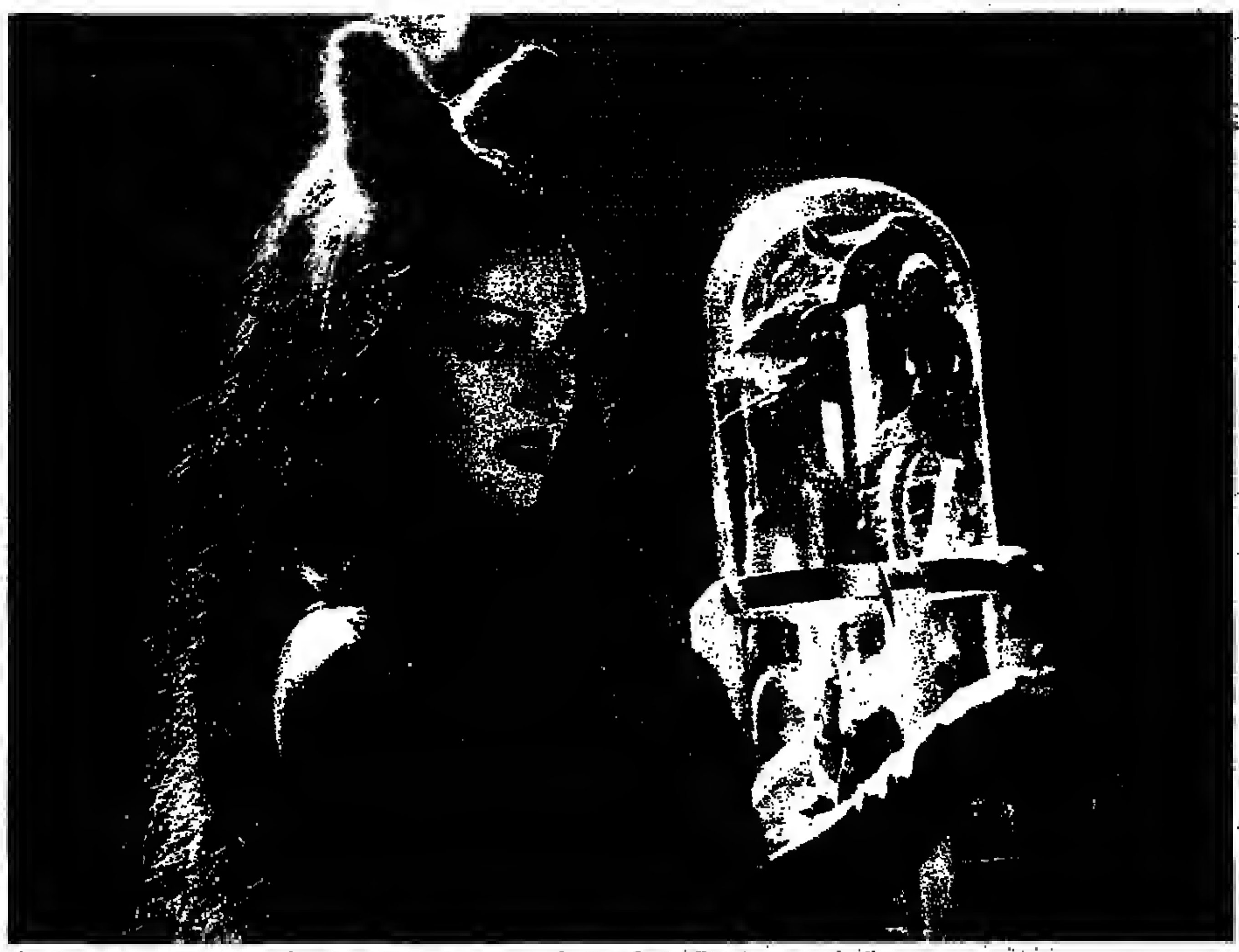
The film, alas, is like a lantern slide lecture overrun by everyone on campus. A bevy of "cultural critics", from distinguished Frenchwomen to media motor-mouth Stuart Hall, talk earnestly of "ethnocentric gazes" and "crushing objecthoods". Meanwhile ex-relatives rally to the memory of the real Fanon, while a fictional version (Colin Salmon) revolves his head elegantly for the camera as its lens probes the stiff, twilight world of video *tableaux vivants*.

The British Film Institute, ethnocentrically gazing, also revives *The Battle Of Algiers*. This movie document is the real thing, or almost persuades you that it is. It makes frequent use of newsreels and is shot like one even when it doesn't. The camera quakes through the streets, the black-and-white film all but scorching your retina.

Gillo Pontecorvo's 1965 film is a classic of political cinema. It treats historical events not, like Julien, as a group of carefully lit artefacts to be picked over in a museum hnt as hooby traps exploding under the audience's feet. History, like creation, the movie seems to suggest, is virtual chaos. Humanity's harrowing self-chosen task is to present it all as if it made sense.

Once, perhaps, it did. Before the Nagasaki of 1945 there was Puccini's Nagasaki, a pretty port where beautiful ex-Geishas pined for lost American naval husbands. Frédéric Mitterrand's *Madame Butterfly* is almost criminally unadventurous: the camera dances obsequious attendance on two handsome, well-voiced leads (Ying Huang, Richard Troxell) and occasionally gazes past them at sparkling views of the sea and sky.

Yet since Puccini's score is idiot-proof and since Mitterrand (François's cousin) is no idiot, just a little stuffy, the movie melts our hearts anyway. It remains one of life's mysteries that an opera with such shameless instant-access tunes and such dollops of virtual schmaltz should also cut so deep, express such real, defined, unforgettable pain.



Uma Thurman as Poison Ivy in 'Batman and Robin': two hours of merciless over-production

Cinema/Nigel Andrews

Put the freeze on Batman

BATMAN AND ROBIN
Joel Schumacher

LOVE JONES
Theodore Witcher

FRANTZ FANON: BLACK SKIN, WHITE MASK
Isaac Julien

THE BATTLE OF ALGIERS
Gillo Pontecorvo

MADAME BUTTERFLY
Frederic Mitterrand

Maggio Musicale

Torpid Turandot sets the scene

Florence's renownsd "Maggio Musicale" – a "musical May" that always runs well into June – began this year with *Parsifal* and chilly rain. By the time I flew in for *Turandot* and Strauss's *Ariadne auf Naxos*, however, it was prostratingly hot and muggy. The American and Japanese throngs wilted as they trudged from monument to monument. I sympathised deeply.

Sitting through a torpid *Turandot* in the searing heat is a donbly uncomfortable experience. Still, the Maggio Fiorentino had spared no effort. They had the film-maker Zhang Yimou (*Red Lanterns*, *Ju Dou*) to direct the opera, on the flimsy ground that Puccini's story is a "Chinesa" fable, and four Chinese designers to create a costly riot of oriental colour and pomp – giant shields and tapestries, calligraphic screens, sumptuous costumes for whole regiments.

In the midst of it was the massive Sharon Sweet as a virtually immobile Princess Turandot, raising a haughty right hand from time to time to indicate resolve, surprise or dismay. Her soprano was loud enough to get through even the monstrous noise Zubin Mehta coaxed from his orchestra, but her declamation was curiously insipid: rhythmically loose and languid, drained of expressive colour. She won an ovation nevertheless.

Lando Bartolini made an upstanding Prince Calaf. Though it is almost 30 years since he won the Mario Lanza prize, his forceful tenor still hoasts a fine, hrazen ring; and he seized his phrases firmly by the throat, where Sweet let them drift. His poor little Liù, who is only there for the pathos, was sung with excessive passion – and no proper legato – hy Lucia Mazzaria. The lesser principals were creditable, but all in all the overweening spectacle earned "nul points" for drama.

For Jonathan Miller's staging of *Ariadne*, tha company moved from the big Teatro Communale to the friendly littls Teatro della Pergola. Even then, with elaborate Italian surtitles to help, the farcical prologue-act drew not one laugh; there was nothing funny about Wolfgang Brendel's grandly sonorous, serious Music Master, Ildiko Komlosi's stately Composer (fervently sung) or Heinz Zednik's cold, unpleasant Major-Domo. The Italian audience thought they were watching something Teutonically earnest.

In the opera-within-the-opera Elisabeth Meyer-Topsoe's dignified Ariadne and Thomas Moser's sturdy Bacchus came warmly into their own, though the supporting trio of nymphs was too bright and brittle to supply a consoling note. One splendid bass (Julian Rodescu as Truffaldino) does not a comic quartet make: the Harlequin was wretched in his tender serenade, and the high tenor bleated dimly. In all their jaunty music, the all-important pianist in the pit was accurate but deadly dull.

Thay went dutifully through the vaudeville routines that Miller taught his Broomhill cast so well a couple of years ago, but with less spark. Fortunately their Zerbinetta, the American coloratura Laura Aikin, compensated hrilliantly: dazzlingly assured in the fearsome rondo, delectahle and sexy, in frank Madonna-mode. Everybody loved her, and she saved the evening.

This seemed not to be a vintage year for the Maggio orchestra. It played competently anough for the operas, hnt never shona. Arturo Tamayo conducted it in a 20th-century programme with Berg's Three Pieces op. 6 at the end, which was untidy and ill-balanced. Perhaps the clotted, indeterminate sound of Adriano Guarnieri's *Omaggio a Mina* at the start was not after all the composer's fault.

A commissioned premiere, Giacomo Manzoni's *Moi, Antonin A.*, proved to be a 1960s throwback: an actor hysterically declaiming Artaud (the "Antonin" of the title), a soprano warbling in the stratosphere, raw Expressionist effects from the orchestra. Ivan Fedele's 1993 piano concerto sounded much more like music. Subtle, plangent harmonies; and the solo part, beautifully written for the instrument, was delivered by Dimitri Vassilakis with lovely finesse.

D.M.

Pop/Ian Shuttleworth

Funk with hard edges

While most contemporary soul heads down the road of syrupy harmonies and inserting as many twiddly vocal bits as possibla, a few bands have chosen the path of big, loose, brassy funk first trodden by Sly and the Family Stone some three decades ago. "Retro" it may be, but when it succeeds it produces quite as many good-time vibes as you could want.

This is the option chosen by The Brand New Heavies, who opened their Capital FM-sponsored concert at the Royal Albert Hall last Friday with the tried and trusted call-and-response tactics of "I Like It". More relaxed than frenzied, they give off the air of an old-fashioned soul revue, with tha archetypal three-pieca horn aection on a podium at the back, and their most recent recruit, vocalist Siedah Garrett, shimmying around the stage with the exuberant inelegance of Tina Turner.

The Heavies are at their best wheo going unashamedly for the busy sound, as in "You Are The Universe" or "Put The Funk Back In"; their sparser, more straight-ahead numbers seem clumping in comparison, especially given a less-than-perfect live mix. Nevertheless, their cover of Maria Muldaur's "Midnight At The Oasis" is thet rarity these days, a version of a well-loved oldie which does not desecrate the original – even if, like the 1974 single, it sounds more like midnight at the Oasis Club, West Hollywood.

It is an evening of funk with hard edges, a world away from the likes of George Clinton hut thankfully equally distanced from the languours of cocktail soul. There will always be a demand for the kind of concert that culminates in the release of balloons from the roof, and The Brand New Heavies are among the better combos catering to such a constituency.

Aldeburgh Festival/David Murray

Turnage finds his voice

Faithful to the spirit of its founder Benjamin Britten, the Aldeburgh Festival continnes to promote adventurous new operas on the modest scale it can afford. This year's winner, so to speak – dozens of young composers wisb for the Aldeburgh accolade – is 37-year-old Mark-Anthony Turnage.

Aldeburgh presented a pair of Turnage's "operas" this year, his first since a sensational success some years ago with *Greek*: the Oedipus story as re-told in East End terms by Steven Berkoff (with a happy ending). Since then he has composed a near-monodrama or two. His new *Twice Through the Heort* is another of those, wbereas *The Country of the Blind*, after the H.G. Wells short story, strives cautiously toward real opera.

Twice Through the Heart is a *sceno* for mezzo-soprano with chamber ensemble, just over a half-bour long. It comprises eight "songs" (plus one voiceless interlnde) for a brutally abused wife who has finally killed her husband, and is now in prison; it could he a bitter response to Scbumann's uxorious *Frauenliebe und leben* cycle. The texts are poems, not dramatic narratives, hy Jackie Kay, who adapted tbem from her original television piece.

The "action" is already over; the poems are emotionally fraught memories and reflections on the wife's lot. Sally Burgess sang her with exhausted passion, jndging nicely how far sbe could dramatise a study in which the drama is all past and internalised.

Turnage's score is darkly beautiful, though of course sometimes harsh. Jazz is close to his heart, and it is assimilated into his musical language bere like natural speech. A sharp C-trumpet is prominent, and bass clarinets like saxophones; hnt the whole ensemble has a pungent, consistent voice. It sounds more like pure Turnage than almost anything he has written so far. It also sounds like sensitive, intelligent film-music for some American domestic drama: nothing wrong with that.

The Country of the Blind, adapted from H.G. Wells' story by Claire Venables, is longer hut more schematic. A sighted man falls among a sightless tribe – and does *not* become their king; they regard his talk of "seeing" things as symptomatic of some nasty psychological disorder. Though he falls in love with one of their women, eventually he has to flee for his life.

All this transpires in just 45 minutes. Emma Jenkins staged it strikingly in Conor Murpby'e designs, with hlind tribesfolk clambering featly up and down a sheer wall studded with giant pins. Much of Turnage's chilly score is devoted to creating a cramped, stifling atmospbere.

The hapless hero and his sweetheart (here Thomas Randle and Regina Nathan, both excellent) had their moments of beartfelt expression, but the net effect was of an abstract morality-play – something which invites drawing thoughtful morals, not sympathy; something like an art-house film for specialised audiences. Ambitious students at an opera-school might well try it.

INTERNATIONAL

ARTS GUIDE

■ BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267 9300
● Tales From the Land of Dragons: 1000 Years of Chinesa Painting – display of 153 rare and ancient paintings from the Tang, Song and Yuan dynasties, including early Buddhist and Daoist religious pieces; to Jul 20

■ BRUSSELS

EXHIBITION
Palais des Beaux-Arts
Tel: 32-2-507 8200
● Alberto Burri: retrospective exhibition ot work by the italian artist who began painting whilo a prisoner of war in Texas. Burri uses found objects such as rusted metal and burnt wood in his work; to Aug 17

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Gürzenich-Orchester and the Kölner Philharmoniker: with conductor Michael Schxnwandt in works by Brahms; Jun 29, 30; Jul 1

■ FRANKFURT

EXHIBITION
Städelsches Kunstinstitut
Tal: 49-69-605098-115
● Pablo Picasso: Suite Vollard – display selected from Picasso'a Suite Vollard, a series of 100 works produced in the early 1930s; to Jul 27

■ HAMBURG

EXHIBITION
Museum für Kunst und Gewerbe Tel: 49-40-24862732
● Alphonse Mucha-Triumph des Jugendstils: display featuring over 230 lithographs, drawings, sculptures and photographs by the Czech-born graphic artist and designer. Mucha'a posters and ceramic tableaux made him a very popular artist with the general public at the turn of the century; to Jul 27

■ LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
● Philharmonia Orchestra: with conductor Leonard Slatkin and mezzo-soprano Frederica von Stade in works by Haydn, Cantaloube and Mahler; Jun 29

EXHIBITION
British Museum
Tel: 44-171-636 1555
● Ancient Faces: Mummy Portraits from Roman Egypt – display of nearly 200 mummy portraits on wooden panels, linen shrouds and coffin lids mado between the 1st and 3rd centuries AD; to Jul 20

THEATRE
Queen's Theatre
Tel: 44-171-494 5040
● Master Class: by McNally. Directed by Leonard Foglia. Maria Callas is played by Patti LuPone; to Jul 30

■ MADRID

CONCERT
Auditorio Nacional de Música
Tel: 34-1-337 0100
● Cuarteto Sine Nomine: with clarinet-player Joan Enric Lluna in works by Haydn, Mozart and Brahms; Jun 30

EXHIBITION
Fundación la Caixa
Tel: 34-1-435 4833
● Madrid-Barcelona, 1930-1936: A chronicle of two Cities – exhibition examining the political and cultural histories of the two Spanish cities during the country's civil war. Artists represented include Picasso, Miró, Dali and Gargallo; to Jul 27

■ MOSCOW

EXHIBITION
State Pushkin Museum
Tel: 7-095-203 6974
● Etchings by Rembrandt: Reflections of the Golden Age – display of Holland's largest collection of etchings by the Dutch master, including self-portraits, Biblical scenes, mythological figures, book illustrations, figure and bust studies and landscapes; to Jun 29

■ MUNICH

EXHIBITION
Kunsthalle der Hypo-Kulturstiftung
Tel: 49-89-224412
● Alberto Giacometti: display of works by the Swiss sculptor, with over 60 pieces selected from the Foundation Maeght in St. Paul-de-Vence: to Jun 29

■ NEW YORK

EXHIBITION
Whitney Museum of American Art Tel: 1-212-570 3600
● Collection in Context: Rockwell Kent by Night – display of 40 works by the American artist dating from 1910 to 1940 and including paintings, drawings, prints and book illustrations. Kent's work explored the darker side of nature, expressing a particular fascination with the night sky; to Sep 28

JAZZ & BLUES
Avery Fisher Hall Tel: 1-212-875-5030
● Ray Charles: performance by the singer and keyboard player; Jun 27

■ PARIS

OPERA
L'Opéra de Paris Bastille
Tel: 33-1-4473 1399
● Manon: by Massenet. Conducted by Gary Bertini, performed by the Orchestre et Choeurs de l'Opéra National de Paris. Soloists includa Renée Fleming, Richard Leech and Laurent Naouri; Jun 29

■ SAN FRANCISCO

EXHIBITION
SFMOMA – Museum of Modern Art Tel: 1-415-357-4000
● Paul Klee: Here and Beyond, The Djerassi Collection – exhibition featuring a selection of 20 works by the Swiss artist, ranging from portraits to abstractions. The display includes pieces never before displayed at the museum; to Jul 29

■ THE HAGUE

EXHIBITION
Het Paleis Tel: 31-70-3381111
● The Dandy: Attire, Art and Literature – exhibition examining the late 1800s dandy, concentrating mainly on the concept as a literary phenomenon by highlighting the life and times of such figures as Oscar Wilde, Marcel Proust and Louis Couperus; to Aug 31

■ VANCOUVER

FESTIVAL
Du Maurier Ltd International Jazz Festival
Tel: 1-604-682 0706
● Du Maurier Ltd International Jazz Festival 1997: this year's festival features performances by the Dave Brubeck Quartet, the Bill Frisell Quartet, Herb Albert, Dee Dee Bridgewater, Otis Rush and tha Sonny Fortune Quartet; to Jun 29

■ VIENNA

EXHIBITION
Graphische Sammlung Albertina
Tel: 43-1-534830
● Christian Ludwig Attersee: exhibition featuring 200 of Attersee'a works produced over the past 30 years, including graphic art, paintings and drawings; to Jul 6

OPERA
Volksoper Wien
Tel: 43-1-5144 42960
● Die Hochzeit des Figaro: by Mozart. Conducted by deBilly; to Jun 29

Wiener Staatsoper
Tel: 43-1-514442960
● Stiffelio: by Verdi. Conducted by Fabio Luisi; soloists include José Carreras; Jun 28

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Lohengrin: by Wagner. Conducted by Ralf Weikert; Jun 29

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WORLD SERVICE

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Financial Times Business Tonight

Peter Martin

Stampeded into action

The market's herd mentality demands that companies test their strategy against signals from the real world and be prepared to shift direction

All markets have a herd mentality. But some herds are more unthinking and destructive than others. Is the UK equity market such a herd, one that unjustifiably tramples any company that shows a momentary sign of weakness?

The question is provoked by the speed with which National Westminster Bank has lost favour in recent weeks. One senior manager has gone; the future of others is called into question; potential bidders for the bank are touted. Yet the underlying business, with all its strengths and weaknesses, is no different today than it was a few months ago, before this fire-storm of criticism ignited.

The spark – the revelation of a £77m ($127.05m) loss on mis-priced options – is the sort of risk inherent in moving into investment banking. A year or so ago, the market broadly approved of NatWest's attempts to build an investment banking business. Many thought progress in this difficult area better than that of Barclays. Now, Barclays is held up as a model and potential bidder. NatWest's investment banking hopes are derided. The direction of the shift in judgment may be justified; the speed and degree are almost certainly not.

Is the problem worse in Britain than elsewhere? It certainly feels so, and there are some good reasons why the UK market is particularly vulnerable to the herd mentality. It is highly concentrated, in several ways. Almost all significant players work in London. Institutional money is unusually dominant. A small number of fund management firms control the bulk of that money. The glaring exception to this concentration – the role of Edinburgh as an alternative source of fund management expertise – in fact underlines it. Edinburgh fund managers are undoubtedly less prone to unthinking acceptance of the London consensus. But there are not enough of them to create a genuine two-way market in opinion.

Another feature of UK money management – as compared with the US, at least – is the dominance of large balanced funds. This produces a form of closet indexing, in which most fund managers hold stakes in companies in roughly the same proportion as their rivals do. Swings in sentiment are thus self-reinforcing. In the US, fund management mandates are typically more narrowly defined. Fund managers have to sell themselves on their "styles". This allows for institutionalised contrarian thinking, creating the two-way market in opinion that London lacks.

There is also the role of the press. Including the FT, the UK has five daily newspapers that attempt to provide wide-ranging business coverage. Intensely competitive, they seek to outdo each other in pursuing a story once it is hot. The conventions of British journalism allow for outspoken opinions and anonymous quotes. Combined with the incestuous nature of the City, the press acts as a giant amplifier, turning an emerging consensus into an overnight cause célèbre.

All this would not matter if it merely led to temporary over- or under-valuation of individual shares. That would, after all, create opportunities for investors with different time horizons and an independent cast of mind. The damaging consequence, however, is the way the herd mentality pushes company bosses into taking action – any action – rather than continue to face the flood of criticism.

Once a herd is on the move, only dramatic action will divert its attention. One experienced fund manager, musing on the NatWest case, was struck by the way some people at least leapt to the instant conclusion that the solution was a takeover bid, rather than the more mundane alternatives of a change of strategy or management.

So much for the case against the UK equity market. Now let's hear the case for the defence. It starts with a very simple point: that companies often need to be prodded into taking difficult decisions. Sometimes *any* action is better than none. The timetable of business is speeding up, and British companies have, if anything, tended to react too sluggishly. A bias for action is healthy. In the NatWest case, the company's strategy clearly needs correcting, as it acknowledges itself. If there is a problem, it lies not so much in the way companies are kicked when they are down, but rather in the way they are allowed to get away with glittering strategic generalities the rest of the time.

There is also a more sophisticated point. Business is changing, on this argument, in a way that makes sudden reversals of sentiment towards a company inevitable. Competitive forces mean that fewer corporate assets – factories, patents, brands, technology – are unique. A higher proportion of corporate value lies in the way the management exploits those assets, rather than in the assets themselves.

Not only is this an underlying trend, but it is reinforced by cyclical factors. "When markets are high, more of the value of the company lies in the future," points out the fund manager quoted earlier. The management's ability to extract future value from the assets in its hands becomes a steadily larger proportion of the company's total worth.

Judging managerial competence is thus increasingly important. But it is also by far the most difficult thing a fund manager has to do, since usually the only information available is the words of the managers themselves. Individual episodes may cast a profoundly revealing light on the way those words translate into deeds. They may therefore change the consensus valuation of the enterprise overnight, to a way that dwarfs their inherent importance. An apparently disproportionate reaction by the market may in fact be entirely justified.

In practice, the issue for fund managers and companies is not whether the herd mentality is worse in the UK, or whether it can be defended. It is how to cope with the consequences. This is important for owners and managers of institutional money, since equity markets are reasonably efficient – for most shares most of the time. This makes big swings of sentiment in the handful of favoured or mistrusted stocks a powerful influence on a portfolio's overall performance.

For owners of institutional money – such as pension funds – one lesson might be to abandon closet indexing. Instead, the best solution might be to index explicitly the bulk of the fund and parcel the rest up among a group of individual fund managers, each with a specific, aggressive task. The core fund would do no worse, in terms of under- or over-valued shares, than the market as a whole; the smaller chunks of money, focused on relatively few stocks, would stand a better chance of anticipating (or resisting) shifts of sentiment.

For corporate managers, the lesson is probably the one preached by Mr Andy Grove, Intel's chief executive: the need for corporate paranoia. Continuous internal self-criticism, even when the market thinks you are hot, is probably the best protection against waking up and discovering you have suddenly gone cold. That means continuously testing the company's strategy against the signals from the real world. It means endlessly asking whether capital could be put to better use elsewhere, then acting on the conclusions. The best protection against the herd, after all, is to make sure you are not in its path.

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LETTERS TO THE EDITOR

Singapore opposes defamation

From Mr J. Y. Pillay.

Sir, Samuel Brittan ("Zero tolerance, Singapore-style", June 12) repeated some of Christopher Lingle's distortions about Singapore.

Mr Brittan says that Mr Lingle's article made "no specific reference to Singapore". But the International Herald Tribune (IHT) admitted that Mr Lingle's remarks could be construed as suggesting that the Singapore judiciary was compliant and that our senior minister, Mr Lee Kuan Yew, had relied on it to bankrupt opposition politicians through court actions. The IHT accepted that such a suggestion was unfounded, and apologised unreservedly.

The trial against Mr Lingle, the IHT, and others was conducted in open court, and the proceedings were transparent. Mr Lingle was served with all the court papers at his home in Atlanta in the US, and was fully informed of the charges against him. All the other defendants appeared at the trial and made their defence. However, Mr Lingle chose not to appear.

Newspapers may be freely distributed in Singapore. But those that commit defamation can hardly expect immunity from libel actions. And those that interfere in domestic politics, especially by publishing tendentious articles on Singapore and refusing the government's right of reply, may expect their circulation to be restricted.

Had the Singapore government stifled the free flow of information, Singapore would not have become the financial centre of the region. Nor would many international news organisations, like Reuters and Asia Business News, have made Singapore their regional base.

J. Y. Pillay,
high commissioner for the Republic of Singapore,
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Best method to sway Turkey is by trade

From Mr Andrew Wigley.

Sir, With reference to your editorial ("Creeping coup", June 23), while the EU's woes about Turkey continue, the west would do well to engage in more constructive dialogue with Ankara.

Military sway in affairs of state and a growing Islamist tendency are a recipe for trouble. Through Nato, however, European leaders have a direct line to recalcitrant army leaders should they wish to avert the threat of a coup.

Europe flagrantly courts one of the fastest-growing economies. It is by trade and economic relations that influence can be brought to bear upon Turkey, and increased prosperity should prompt reform internally.

Those European politicians who suggest that Turkey should be excluded from Europe are mistaken in identifying the alienation of Ankara as the path to progress.

Andrew Wigley,
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1040 Brussels,
Belgium

Steady progress towards transparency

From Mr Frank Vogl.

Sir, Stephanie Flanders draws attention to the reality that corruption problems cannot be solved by decree (Economic Notebook, June 23). But it would be wrong to underestimate the significance of the Denver summit declarations.

Those of us who have been campaigning for years to focus attention on corruption are overjoyed that the topic was on the Denver agenda. The leaders went to considerable lengths in their Group of 7 communiqué on June 21 to highlight specific 1998 deadlines for actions by OECD governments to criminalise international bribery, specifically in encouraging the World Bank and other multilateral institutions to implement new anti-corruption strategies.

The summit statements reinforce efforts to pressure the Bonn government to end the tax deductibility of foreign bribes for German businesses. And they will make it harder for OECD members to use bureaucratic tactics to delay or water down action to make international bribery by multinational corporations illegal.

The attention that this issue has been given will inspire many non-governmental organisations, including Transparency International, to redouble efforts to raise public awareness of the corrosive impact of corruption, to lobby national governments north and south to make government more transparent, and to promote far-reaching anti-bribery initiatives in such multilateral agencies as the World Trade Organisation.

Frank Vogl,
vice-chairman,
Transparency International,
10 New Hampshire Avenue NW,
Washington DC,
US

Intrigue and distrust

Netanyahu's first year as Israeli prime minister has been beset with crises and broken promises, says Judy Dempsey

Poison pact: Netanyahu's deal with Yisrael Ba'Aliya prompted Meridor (right) to resign

On Monday evening, Mr Benjamin Netanyahu, Israel's prime minister, clinched a deal with Mr Natan Sharansky, trade minister and head of Yisrael Ba'Aliya, the Russian immigrant party. It cost Shk225m ($64m). The money will finance programmes for Russian scientists and housing for the 750,000 Russian immigrants who have arrived in Israel since the early 1990s.

For Mr Netanyahu, it was taxpayers' money well spent. This week he needed the votes of Yisrael Ba'Aliya's seven parliamentary deputies to defeat a no-confidence vote proposed by the Labour opposition. The party toed the government line and the prime minister survived.

But Mr Netanyahu's parliamentary power base is far from secure. The deal with Mr Sharansky was part of the reason the prime minister did not present a promised Shk600m budget cut to the cabinet a week ago. This prompted the resignation of Mr Dan Meridor as finance minister because he was unable to work with a cabinet he felt was riven by intrigue and distrust.

"Netanyahu had to keep Sharansky on board," says a senior adviser to the prime minister. "I hope the government can now get down to work and start making tough decisions."

If the record is anything to go by, the chances of this are slim. Since coming to power over a year ago, Mr Netanyahu has lurched from crisis to crisis. He has failed to deliver on a wide range of promises, including the introduction of a coherent privatisation programme.

Many believe the pending privatisation of Bank Hapoalim, which controls 40 per cent of the country's banking assets and manages most of the pension and provident funds, to be flawed. Mr Netanyahu wants to sell the bank to a single owner and will not countenance the break-up of its holdings. "This privatisation will not lead to competition in the sector," admits one of his economic advisers.

Promises of capital market reforms, including an overhaul of the deficit-ridden state pension system, have fallen by the wayside. Talk of dismantling the monopolies, such as water and the Israel Lands Authority, which controls 92 per cent of all land, transport and agriculture, has come to nothing. "Although Netanyahu says he wants to sweep away uncompetitive practices, I no longer believe he is prepared to challenge the lobbies," the adviser says.

The reluctance to address such issues may be put down to inexperience. But it is also a reflection of Mr Netanyahu's preoccupation with trying to keep together an unwieldy coalition of nationalists, religious parties and conservatives to which he has made various – and sometimes conflicting – promises.

"I am quite confident that Netanyahu has no idea where he is going," says Mr Efraim Inbar, political scientist at the Begin-Sadat Centre for Strategic Studies at Bar-Ilan University. "He does not have a wide horizon. If anything, he is thinking about survival and the elections in 2000. That means he wants to build up his own elites – ones he can completely rely upon."

The resignation of Mr Meridor appears part of the effort to snuff out potential challengers to Mr Netanyahu both inside and out his Likud party. "Meridor was the voice of decency in the government," says a foreign ministry official. "Netanyahu resented him."

In January, Mr Netanyahu appointed his ally Mr Roni Bar-On as attorney-general. Mr Bar-On was forced to resign after the legal profession claimed he was incompetent. Senior judges later concluded there might have been a plot by one government official to engineer his promotion.

But Mr Netanyahu remains impervious to criticism that his appointments are based on loyalty rather than competence. Recently he placed several of his supporters into prominent diplomatic posts without consulting the foreign ministry. This alienated Mr David Levy, foreign minister, whose Gesher faction refused to support Mr Netanyahu in the no-confidence vote, deepening divisions within the government.

Mr Netanyahu is also attempting to change the structure of the left-leaning Israel Broadcasting Authority, the public service television and radio network, by abolishing the licence fee and making it dependent on advertising.

"Netanyahu is determined to build up counter-elites to Labour which dominate many of Israel's institutions," says Mr Inbar. "Unlike Labour, the rightwing does not have its own newspapers; it does not have its own candidates for ambassadors; it does not have its people in the top judicial jobs or in the universities. Mr Netanyahu is seeking revenge against the establishment now that he has the power."

This determination to exert centralised power over Likud and build a loyal, rightwing power base – even at the cost of alienating moderate Likudniks such as Mr Meridor – began in the party districts. One Likud supporter says that since Mr Netanyahu secured the party's nomination for prime minister in 1993, he has put his own people in the district organisations. "If they do not toe the line, they will not be promoted."

In spite of opposition within the parliamentary party, Mr Netanyahu has survived several no-confidence votes because of a new electoral system that makes it harder for deputies to oust him without losing their own jobs. Even so, Mr Meridor hopes to muster the two-thirds majority needed to bring down Mr Netanyahu without forcing the dissolution of parliament.

In his efforts to control the party, more important issues have been neglected. The peace process is at a standstill, and the Palestinians are in limbo. "We have no idea where we are going with Netanyahu," says Mr Saeb Erekat, Palestinian chief peace negotiator.

Economic policy remains incoherent. And much of the international goodwill Israel gained during the height of the peace process in 1995 is evaporating.

"Maybe – and this is a big maybe – things might improve after the pending cabinet reshuffle and the defeat of the no-confidence vote," says one of his advisers. "Maybe Netanyahu can start communicating with, and trusting, his ministers... We have wasted much time and made many mistakes. It cannot continue like this."

FINANCIAL TIMES

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Thursday June 26 1997

New Japan, old Japan

There have been two important question marks hanging over the Japanese economy since the government decided to go ahead with its April consumption tax rise. These were whether the tightening would thwart the recovery and, more important, whether this recovery would be any different from previous ones. Yesterday's Bank of Japan Tankan survey of business confidence for June provided some important hints on both fronts.

The good news is that at least one major part of the economy – manufacturing – seems to have been sublimely indifferent to the tax rise. At plus seven, the positive balance of self-described optimists in this sector was the highest since 1991, and well above expectations.

The Bank's finding will quell fears that the government had inflicted too much fiscal rigour on the economy, too soon. Yet the sharp initial fall in the domestic bond market in response to the survey was probably overdone.

For all the large manufacturers' optimism, the evidence on how the rest of the economy is faring since April has been very mixed. The Bank of Japan does not want to raise the discount rate only to cut it again a few months later. That suggests waiting to get a more complete – and positive – picture of the economy as a whole, which it is unlikely to bave before September.

If the recovery does prove resilient it will be one up for Mr Ryutaro Hashimoto, the prime minister, who has faced criticism from Washington for pushing through the tax rise. But the US worry that growth, as a result, would be skewed beavily toward exports has not been laid to rest. With a revived tradeable sector once again carrying the rest of the economy, many concinded yesterday that years of recession and supposed deregulation had changed nothing. Japan is the old-style "dual economy" it always was - with old-style trade battles with the US to look forward to.

This is only balf-rigbt. If Japan is indeed repeating its pattern of export-driven growth, it can only be because a good many manufacturers *have* been fundamentally changed by the difficult early 1990s. They have been forced to come up with highly innovative ways to cut costs and develop new products. This, coupled with a weaker yen, may have made them more competitive than ever, not just internationally but in (now more open) home markets.

The challenge for Mr Hashimoto will be to use deregulation to achieve the same sea-change in the rest of the economy, so that manufacturing may take a smaller role. But in the meantime be has some skirmisbes with the US ahead: and soon.

The vital state

The only thing as harmful as a bad government is no government at all. These two apparent opposites are in fact closely connected. Tyranny can easily finisb in anarchy. No tasks are more important, but also more difficult, than discouraging the emergence of dreadful government and rescuing countries with no government.

These are the stark lessons to be drawn from this year's World Development Report, thefocus of which is the state. Without it civilisation is impossible and development inconceivable. But the state's monopoly of coercive power is also dangerous. It can be an effective servant or a rapacious master.

The state, argues the report, has five core functions: establishing law; maintaining a non-distortionary policy environment; providing basic social services and infrastructure; protecting the vulnerable; and protecting the environment. To these, in the right circumstances, others may be added. But they should be added with care. A state that tries to do more than it can will end up achieving less than it should.

This may sound like a call for minimalism. But it is merely one for modesty. The modest state will also see the need for improvement. If it is to improve, the state must impose restraints on itself and its servants. A sense of public service must be instilled, with officials rewarded for competent and honest performance. Discretion must be limited and as much economic activity as possible be subject to the market mechanism.

The state is always a work in progress. What worked superbly at one stage of development can readily fail at the next. Reform is also slow. Eliminating exorbitant tariffs can be done overnight. Creating a competent judiciary is the effort of at least a generation.

Yet there is hope. The relatively sophisticated and capable states of today's advanced economies grew from sadly incompetent and corrupt beginnings. A virtuous circle from reform of the state to policy reforms and back to further improvement of the state undoubtedly exists. Yet so does its vicious counterpart. In too many countries, over-ambitious states are still less effective than a generation ago. Sometimes they have even disappeared.

Can the sick physician heal itself? Evil governments will not magically become good nor foolish governments anddenly become wise. But opportunities for reform do arise. The report's most important implication is that the grotesquely incompetent must not be propped up. Sometimes it is necessary to wait for the opportunity to help a country determined to start afresh.

The IRA's call

Mr Tony Blair's latest elucidation of the terms for the antry of Sinn Féin/IRA into multi-party talks on the future of Northern Ireland represents the unfinished business of Mr John Major's administration.

Tha new Anglo-Irish paper designed to break the deadlock on the decommissioning of paramilitary weapons was in large part drafted before the British general election. The proposed six-week gap between a credible Sinn Féin/IRA ceasefire and its entry into the talks was also considered by the last government. Both initiatives were lost in the paralysis which accompanied the loss of Mr Major's parliamentary majority and his reliance on the Ulster unionists.

Against that background, the charge laid by some unionists that Mr Blair is making fresh concessions to the terrorists even as Sinn Féin/IRA steps up its campaign of murder and bombing is misconceived.

The proposal that weapons be set aside in parallel with substantive political negotiations is designed to remove the roadblock which has stalled progress in the talks for the past year. It matches the recommendation of Mr George Mitchell, the former US senator who is acting as independent chairman in the multi-party talks. As to the timescale, this acknowledges it is more important to assess the quality of any ceasefire than to impose a lengthy "decontamination period".

So it is understandable that in the first months of his government Mr Blair wants to exhaust every possibla legitimate avenue to ending the violence in Northern Ireland. If nothing else, this should ensure that international and domestic opinion sees precisely where the blame lies if Sinn Féin/IRA continues to put violence ahead of politics.

In one respect this leaves the initiative with the republicans. Mr Gerry Adams, the Sinn Féin/IRA president, has now run out of excuses in refusing to renounce terrorism. For all Mr Adams' attempts to distanca himself from the IRA, the reality is that the political and military wings of the repnblican movement share the same leadership. If it refuses now to re-establish a ceasefire it will confirm suspicions it never intended to swap the bullet for the ballot box.

For his part, Mr Blair must add credibility to the deadline of next May for a political settlement – with or without Mr Adams. The outlines of the eventual accord are known. Devolved government in Belfast would be accompanied by stronger links with the Republic and enhanced co-operation between London and Dublin. Each strand of any settlement would also entrench tha principle that Northern Ireland's future can be decided only with the consent of its people. Sinn Féin/IRA cannot escape that reality.

New tricks for old dog

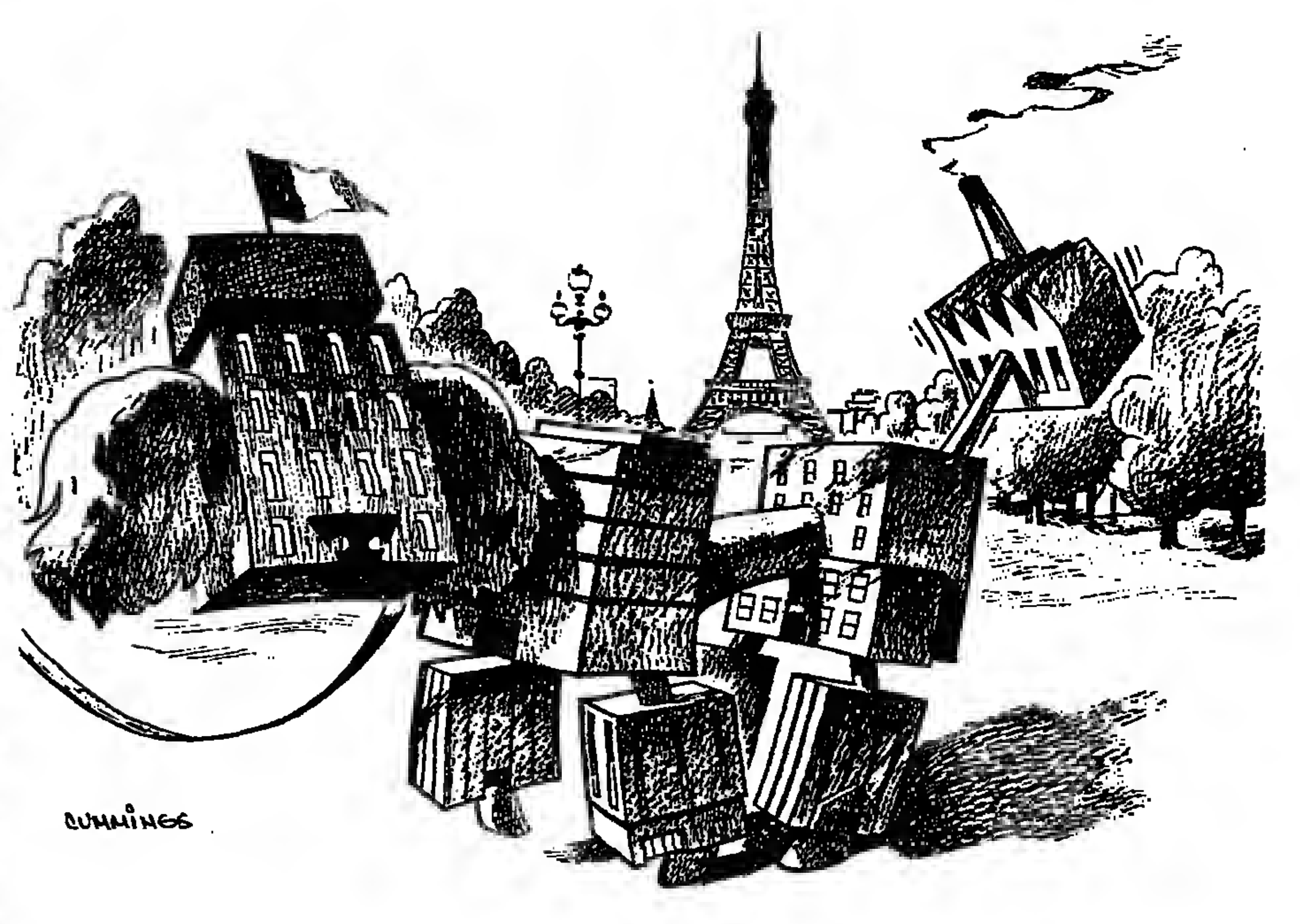
France's unique style of capitalism is slowly becoming more open and driven by shareholders' concerns, says **Andrew Jack**

Mr Jean-Louis Beffa, chairman of Saint-Gobain, the powerful French glass and building materials group, is bracing himself to deliver a damaging and potentially lethal blow to the country's unique style of capitalism.

He has just resigned from the board of Suez, the utilities giant, and is soon to follow up by selling most of his group's shares in the company. Mr Gérard Mestrallet, chairman of Suez, has in turn said he will reduce his company's reciprocal stake in Saint-Gobain.

The mutual pullout will bring to an end one of the most potent symbols of the complex system of cross-shareholdings and reciprocal board memberships that has been at the heart of French capitalism over the past 30 years. Its demise reflects growing calls for shareholder value at a time when a wave of corporate restructurings and mergers are leaving companies more exposed to stock market pressure.

Mr Beffa has been one of the linchpins of a system seen by critics as designed to preserve incumbent management rather than to produce value for shareholders or respect modern rules of corporate governance. Even its supporters have begun to argue that the approach was a necessary but temporary evil whose justification is fast running out.



"French-style capitalism bas had its time," says Mr Pierre Richard, chairman of Dexia, the bank formed by the merger of Crédit Local de France and Crédit Communal de Belgique. "It was the reign of cross-shareholdings, and of the mutual protection of chief executives. Corporate governance is abont economic democracy, with the restoration of the role of shareholders."

Suez had become a holding company with a diverse range of participations in other businesses, many of which had reciprocal stakes and seats on its board. As a result, it was pulled in many different directions by its directors, each with their own conflicting interests. Few bold decisions were taken and the group was stagnating. The penalty was suspicion from investors, a lower stock market capitalisation than the value of its assets, and a credit rating under pressure. The net result was to force the pace of change.

"The time of the big financial holding companies is over," says Mr Mestrallet, the chairman appointed two years ago. "From now on they have to find their own activities and a real vocation."

His response was to sell off a range of businesses, notably in the financial sector, and transform Suez into a utilities group. This paved the way for the merger with the utilities group Lyonnaise des Eaux ratified by shareholders last week.

But the group's new, tighter focus rendered other investments – including those in Elf, UAP and Saint-Gobain – all but irrelevant. Saint-Gobain was left marginalised and increasingly in a position of conflict, given its stake in the rival utilities group Générale des Eaux. It had little choice but to begin unwinding its position.

Mr Beffa himself, who vows to apply "a purely financial vision" to running Saint-Gobain, says of the cross-shareboldings which linked his group to several friendly investors including Suez: "We needed a stable shareholding while bringing about change. But now we are profitable and appreciated by the market, it is no longer necessary."

Some of Mr Beffa's associates say he still dreams of preserving the French-style system of alliances. But, driven by the increasing difficulties of maintaining his conflicting investments, he bas simply taken the pragmatic decision to sell his stakes at a time when rising stock market values have made his exit less painful.

Suez's position was far from unique. Mr François Morin, an economics professor at the University of Toulouse I, says the old-style French system dates back to the 1960s. One characteristic of the era was "auto-control". Many quoted companies held a considerable proportion of their own shares, which protected them from hostile takeover bids and shielded their managements from potential challenges by outside investors.

A second element was the role played by two buge financial holding companies – Suez and Paribas – which built up rival "families" of interlocking business investments. During the late 1960s, for example, Suez acquired significant stakes in both Saint-Gobain and Lyonnaise des Eaux.

In the 1980s, two rival state-owned enterprises – the bank Crédit Lyonnais and the insurer UAP – began to build their own competing corporate "empires" by buying large stakes in other companies. Their role became particularly important during the privatisations launched by the Gaullist governments of the late 1980s and the early 1990s. Given the absence of private pension funds or other domestic institutional investors, the state encouraged these groups to support a system of "capitalism without capital". They became part of the *noyaux durs*, or "shareholders of reference", acquiring significant stakes in the companies being sold off to prevent control falling too quickly into foreign hands.

"It was always supposed to be a temporary system for two or three years designed to give the companies time to build alliances during a period of transition after the total protection of the state," says one executive. "But some companies, such as Saint-Gobain, Rhône Poulenc and Schneider, saw it as a much more long-term, defensive strategy."

During the 1990s, the economic recession and an unprecedented property slump created too much pressure on France's four capitalist families for the system to endure. "Suez and Paribas, the two big godfathers of 20 years ago, have financial problems and can no longer play that role," says Mr Elie Cohen, director of CNRS, the Paris-based centre for the study of political life. "Crédit Lyonnais and UAP tried to replace them – and failed."

Crédit Lyonnais was the first casualty. Still owned by the state, it is protected from shareholder pressure. But huge losses forced the government to impose a restructuring plan in 1995 which stripped away more than FFr200bn in assets from the bank's balance sheet and put up for sale most of its corporate investments.

The insurer UAP faced a similar fate. Weighed down by property losses and the often unprofitable stakes that it bad been forced to acquire in other French companies, it was privatised in 1994. It became a prime target for takeover and last November, its rival Axa pounced.

Axa has sold off more than FFr5bo ($860m) in equity stakes in the combined group since the acquisition. Mr Claude Bébéar, the chairman, argues that his responsibility is to provide his own shareholders and policyholders with a high return on investment, and not to create or sustain corporate empires. "I do not want to be the godfather of French capitalism," he says.

Ironically, the price of Axa's takeover was the severe weakening of its own network of friendly investors that bad protected it from takeover threats. By using its own shares to acquire UAP, it substantially diluted the control wielded over Axa by a series of mutual insurance companies and its long-standing ally Paribas.

Mr Bébéar hints that Axa's reciprocal stake in Paribas, as well as the residual investment it inherited from UAP in the bank BNP, are likely to be cut. "There are no no-go areas," he says.

Profound changes are under way. But the degree to which France's old system of protective cross-ownership bas broken down is still open to question. A number of analysts argue that the move towards genuine corporate governance is progressing more rapidly in other countries, such as Germany and Italy.

Although some foreign financial institutions are beginning to agitate for change, many are more passive. Rather than fighting for shareholder value, they often prefer to sell their stakes or simply remain silent investors.

Mr Morin dismisses many of the changes in corporate ownership over the past two years as merely a recomposition of the existing system, with new alliances taking the place of old ones. "You have to distinguish the rhetoric of the companies designed to give a certain image to Anglo-Saxon investors from the reality," be says.

"You should be sceptical when people talk about radical change," agrees Mr Coben. "There has been a redistribution of ownership and we are leaving behind a form of capitalism dominated by the state. But I do not believe it will lead to a convergence with Anglo-Saxon style financial capitalism."

Certainly, a number of significant cross-shareboldings remain, such as that between Saint-Gobain and the utilities group Générale des Eaux. New agreements have also been forged or renewed in recent months, including the pact this spring between the bank Société Générale and Havas, the media group.

But these alliances appear to be strategic, driven more by an industrial logic than by politics or self-defence by incumbent managements. And the new generation of corporate power brokers, such as Mr Bébéar and Mr Jean-Marie Messier, the youthful chairman of Général des Eaux, has considerably less autonomy than its predecessors. They are more accountable and vulnerable to critical stockmarket investors than ever before.

French executives like Mr Beffa may still privately dream of an alternative to Anglo-Saxon capitalism. One of his competitors bluntly points out, however, that Mr Beffa does not seek capital from the more closed markets of Germany or Japan, but rather from the US and the UK. "It is the capital markets that dictate the law now."

OBSERVER

Real world leadership

■ Despite being fêted back home as the man everyone wants to meet, British prime minister Tony Blair didn't make much of a splash with the general public on his US travels.

His troubles began in Denver when he lost the game of musical chairs at the start of the summit of the Eight and ended up without a seat at the conference table. Even more embarrassing, the world's biggest hitters didn't even appear to notice as he hovered sheepishly behind them looking for somewhere to park. All in all it was the maiden performance of another leader – Boris Yeltsin – which grabbed the limelight.

Things looked brighter when the PM flew to New York and found the city all agog at the prospect of the arrival of everybody's favourite Brit. Sadly, it wasn't Blair they were waiting for; enter the Princess of Wales, preparing to flog her collection of frocks down at Christie's.

At least the new boy was assured of top billing at a $30,000 bash at the Sutton Place pad of ex-pat 'New Yorker' editor Tina Brown. Surely such lavish attention had nothing to do with Brown's increasingly public campaign to become the next British ambassador to Washington?

Wolf whistle

■ Say what you like about the French, but they know how to do things in style. Bespectacled fashion guru Yves Saint-Laurent has agreed to dress the 2,800 officials who'll preside over the soccer World Cup finals in France next summer. Disappointingly, though, the agreement covers only off-field attire. On the field, officials will still sport the traditional little black numbers.

Fine line

■ Former Aegon insurance chairman Jaap Peters says he'll console himself with "an extra evening drink" if Dutch companies don't comply with his new corporate governence guidelines.

But the final report of the commission be's chaired for the past year – the equivalent of Britain's Cadbury and Greenbury committees – hardly binds the corporate sector hand and foot with regulations. The only thing Peters wants from government is action to make share buy-backs more attractive.

Of course not everyone is thrilled that yesterday's measures go only fractionally further than interim proposals outlined by Peters last October. The only real change since then has been to ask companies to spell out directors' stock options in their annual reports; the total for each board, that is, not each director's cut.

Pieter Paul de Vries, chairman of the VEB shareholder association, says he'll be knocking on doors in The Hague if companies don't play ball.

Family fortunes

■ The redoubtable Michèle Bleustein-Blanchet is causing something of an earthquake at the house of Publicis, the advertising group founded by her late father Marcel. Following the death last year of the man credited in France with turning advertising into an art form, Michèle has decided to liquidate her stake. She's even threatened to use the courts to destroy Somarel, a holding company through which most of her shares are held and which is blocking her attempts to sell.

Much of her frustration is directed towards her elder sister, Elisabeth, who has taken charge of Somarel and the Publicis supervisory board, and is married to the former Socialist justice minister Robert Badinter. Neither side will discuss whether family tensions contributed to the crisis; but there doesn't seem to be much sisterly love between Michèle and the woman she refers to as "Madame Badinter".

Bit of a stink

■ It's no secret that the Americans managed to rub French PM Lionel Jospin up the wrong way in Denver, and they risk making more enemies with their latest policy initiative. Gallic cheese-makers are up in arms about US demands for pasteurisation of dairy products; if carried through that would be bad news for camembert, roquefort and other national delicacies.

While the French themselves would be able to go on eating smelly cheese, if the US gets its way other countries would be entitled to ban unpasteurised imports on health grounds.

And who cares that France exports only a tiny sliver of its camembert production? There's a principle at stake. Apparently, zapping cheese to kill off all the nasty bugs also gets rid of the ripe, raw taste and smell of old socks so treasured by connoisseurs.

"Allowing only pasteurised cheeses would lead to an impoverishment of France's cheese heritage," fumes François Michel, president of the Normandy federation of camembert makers.

Financial Times

100 years ago

The Jamaica Loan
Jamaica is somewhat fortunate in its selection of a date for the issue of its new loan, for the announcement comes at a time when the British Colonies are enjoying the flood tide of public favour. For the first time in its history, the island has come forward with a three per cent loan. The 1870 issue, which was guaranteed by the Home Government, bore interest at the rate of 4 per cent; that of 1879 at the rate of 4½ per cent; and those of later date at the rate of 4 per cent.

50 years ago

One Hundred Millions
The announcement in the House of Commons yesterday of a new corporation for Colonial development is parallel and complementary to the West African Ground Nuts scheme, and equally welcome. The corporation, empowered to borrow up to £100 millions, will assist and increase the productive capacity of the colonies either by helping existing enterprises, encouraging new ones or creating subsidiaries of its own. The corporation is to be run on commercial principles.

FINANCIAL TIMES
Thursday June 26 1997

Second setback in board's search for new chief

Andersen in turmoil as partners snub Shaheen

By Jim Kelly in London

Partners of Andersen Worldwide have plunged the world'a largest accounting and consulting organisation into turmoil hy rejecting for the second time their board's nomination of a new chief executive.

The board, meeting hy teleconference, was told the 2,700 partners had not provided the required two-thirds majority to elect Mr George Shaheen, the head of Andersen Consulting worldwide.

Earlier this month Mr Jim Wadia, head of accountants Arthur Andersen in the UK, won a majority of votes cast in 80 countries hut also failed to secure the required two-thirds "super-majority".

The rejection of Mr Shaheen's candidacy produces constitutional gridlock at Andersen Worldwide and reopens a debate about its structure as two businesses – Arthur Andersen and Andersen Consulting – under one organisational umbrella.

The failure of Mr Shaheen's candidacy – like that of Mr Wadia's – appears to indicate that the partners cannot overcome tribal considerations and vote for a chief executive from outside their own firm.

The board is due to return to New York for a meeting tomorrow It may reaign over the issue.

Other options inclnde revolving the post of chief executive between the two firms, constitutional reform, and getting Mr Larry Weinbach, the incumbent chiaf executive, to stay.

"Our election process is a difficult and demanding one. It is at the end of the day a democratic election designed to lead to a consensus – that'a one of our great strengths," said a spokesman.

"Ultimately we are a democracy and we are operating quite openly – we make an announcement each time there is an ontcome. If we weren't confident, we wouldn't be quite so open. Meanwhile business is great."

While partners do not believe the failure to elect a chief executive is a crisis for the organisation – which is out-performing its competitors – there are concerns it could damage Andersen'a image.

The board'e failure to win the hacking of partners exposes the tensions between the organisation's two business units – Arthur Andersen, the accountancy firm founded in 1913, and Andersen Consulting, which became a separate firm in 1989.

Problems exposed, Page 22

Thais take tough line on Finance One's rights issue

By Ted Bardacke in Bangkok

Thailand's central bank said yesterday it would not aubscribe to a rights issue for Financa One, formerly the country's largest financa company.

The decision signals that the Thai authorities are no longer prepared to provide unlimited aupport for cash-strapped financial institutions. Instead, they want to encourage consolidation in the troubled finance sector.

Finance One failed to execute a merger last month that was designed to save it from collapse. The central bank then ordered a Bt6.2bn ($240m) capital increase and said it would be the buyer of last resort for the new shares in a rights issue due to end today. The bank had already said it would lend the company enough money to stay to business.

The policy was understood to apply to other finance companies as well, and was widely criticised for overburdening government finances and rewarding poorly managed companies. Bnt yesterday's decision – comhined with measures to facilitate margers, announced on Tuesday – signals a much tougher line by the central bank.

"With the new merger incentives we want to give [the finance companies] another opportunity to explore options," said Ms Duangmanee Vongpradhip of the central bank. "If they decide not to merge they will have to fend for themselves."

The central bank was expected to have to buy almost all the Finance One shares. Salomon Brothers estimates the scheme would have cost the government as much as $6.7bn, or 3.5 per cent of GDP.

Many believed it would be impossible to maintain such an expensive policy and still defend the currency. It is estimated that at least half of Thailand'e 91 finance companies are technically insolvent.

Finance One will have to find a merger partner to avoid collapse. Thailand's three biggest finance companies – Phatra Thanakit, Dhana Siam, and National Finance – said yesterday they were studying merger plans.

Money market traders said liqnidity for finance companies from the central bank had dried up over the past two days. Fears have grown of a run on deposits at institutions where financial difficulties are suspected.

In a joint atatement the central bank and the finance ministry warned the pnblic not to panic as depositors "can expect repayment of both principal and toterest".

France Telecom

Cootinued from Page 1

partial privatisatioo might be further eased by indications that some trade unions now favour such a step.

Mr Jospin said during the campaign that the Socialists would ask tbe group's staff whether they supported the move.

Ooe snag with trying to proceed with the float in the autumn is that it could come uncomfortahly close to the expected sale of sbares in Stet, the Italian telecoms group.

Swiss banks

Continued from Page 1

funds. When this proved inadeqnate, they agreed with leading Jewish organisations to set up the Volcker commission to review their own searches for dormant bank accounts. Swiss banks have found just under SFr40m ($28m) to date.

However, the latest initiative is unlikely to end the Swiss banks' legal problems in the US. Mr Michael Hausfeld, the US lawyer leading the main class action, said yesterday the Volcker commission only covered a small part of the Swiss banks' dealings with holocaust victims.

He estimated thot 85 per cent of the $12bn liqnid wealth of European Jews at the start of the second world war had heen laundered through Swiss banks, which bad been guilty of violating human rights.

Additional reporting by Avi Mochlis in Jerusalem, Normo Cohen in London and Heather Bourbeau in Washington

Little support for Britain over HK handover boycott

By Our Foreign Staff in Brussels, Hong Kong and London

The UK has failed to persuade most of its European Union partners to join in e political hoycott of the Chinese swearing-in ceremony for Hong Kong's provisional legislature next week.

Mr Robin Cook, the foreign secretary, will not make a formal eppeal to the rest of the Union's foreign ministers at today's council meeting in Luxembourg for fear of precipitating a public split on the question.

It now looks as though only Britain and the US, of China's main trading partners, will observe the boycott of the non-elected body, although there was some bope in London last night that Germany might be persuaded to join.

The fellure to agree on e common position was criticised in Hong Kong yesterday by Mr Chris Patten, the outgoing governor, who said it would furtber encourage China to disregard pressure on human rigbts.

The government is seeking to play down the division, stressing instead the importance of maintaining pressure on China to hold proper elections for a new legislative council within 12 months.

"It is not so important what happens on the stroke of midnight [on June 30], but what bappens in the months ahead," Mr Cook said in London yesterday. Signs of clear divisions within the EU over China amerged this year when France, Germany, Italy and Spain opposed Denmark's decision to sponsor e UN resolution condemning Beijing's human rights record.

Most EU member states are putting their trade links with China ahead of human rights concerns and are expected to attend the Chinese ceremony.

The decision by the government to boycott the swearing-in ceremony, and seek international backing for the move, was precipitated by China's decision to have a joint ceremony both for Mr C.H. Tung, the new chief exectntive, and for the controversial provisional legislature.

Mr Tony Blair, the British prime minister, Mr Cook and Ms Madeleine Albright, the US aecretary of state, have declined invitations to attend.

However, senior US and UK officials will be there, including Mr Richard Boucher, the US consul-general in Hong Kong, and Mr Francis Cornish, his Britisb counterpart.

Britain is seeking to defuse the question of an EU split, for fear of shaking confidence in the territory.

"I can't imagine anything less helpful to the people of Hong Kong if we approach the handover ceremony on the basis of a European split," a senior diplomat said.

Taiwan tries to come to terms with handover, Page 6

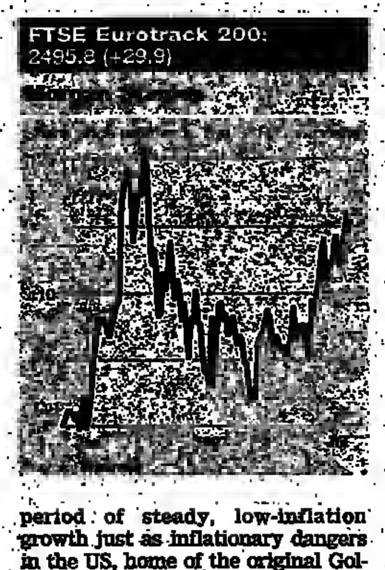
THE LEX COLUMN

Banking on balance

The new Morgan Stanley/Dean Witter vehicle at least looks the part. True to the merger rhetoric, a sporty investment hank and dependable retail brokerage have been combined to create a diversified financial services group. But given that these are the best of all possible times on Wall Street, it is hardly surprising their first set of joint figures looks respectable. The real issue is whether the merger can provide significant synergy benefits over and above the easy pickings of a rampant bull market.

It is still too early to tell. True, the results do confirm that the riskier securities business is now well balanced by safer credit card and asset management businesses, albeit at the cost of slightly lower margins and return on equity. But the potential to boost securities revanues significantly, hy leveraging the investment banking and brokerage activities off each other, remains unproven. The opportunities are certainly considerable: better retail distribution *should* make the firm a more formidable competitor for underwriting and advisory work. And the merged entity *ought* to be able to boost broker productivity through delivering them more and better product.

The risk, of course, is that leaner times on Wall Street could get in the way. But given that the logic of the merger is not simply dependant on buoyant markets, shareholders should at least enjoy some protection from the full brunt of a bear market.



Japan

Japan in the early throes of e Goldilocks recovery? It is an appealing thought. Yesterday's *tankan* survey of business confidence painted e surprisingly optimistic picture: Japan'a big manufacturers appear to be weathering both domestic tax increases and a rebound in the yen with little difficulty. Economic growth in 1997 should reach 2¼ per cent, down on last year, but this time fuelled by private demand rather than public spending. Almost unbelievably, Japan created jobs at e faster rate than the US in the past 12 months.

Yet enough of the economy remains in the doldrums, including the finance and construction sectors, that inflation is not a threat. The Bank of Japan is therefore unlikely to raise interest rates before the autumn. Add it all up and Japan may indeed be entering a period of steady, low-inflation growth just as inflationary dangers in the US, home of the original Goldilocks recovery – neither too hot nor too cold – look to be rising.

Some risks remain, of course. If the current export boom continues it will lead to political difficulties over Japan's trade aurplus. To be sustainable, the economic recovery needs to broaden to encompass non-manufacturers and small companies. And deregulation, while beneficial long-term, is bound to cause some turbulence in the short run. Bnt Japan'e current economic course is certainly positive for equities and the yen, while the threat of interest rate increases, however distant, shonld signal the end of the long bull market in bonds.

UK pharmaceuticals

Drug stocks have always been e safe haven in uncertain times and are proving so again this year. The pharmaceuticals sector has risen 27 per cent to date in 1997, outperforming the UK stock market by 17 per cent. The main drivers have been premium earnings growth and strong cash generation at e time of profit downgrades elsewhere. Ignoring currency effects, SmithKline Beecham and Zeneca should increase earnings per share by 15 per cent a year into the next century, while Glaxo Wellcome is forecast to return to double digit growth from 1999, having overcome Zantac's US patent expiry.

Beyond that, prospects are buoyant. The regulatory environment remains favourable and US managed care organisations have recognised that buying more drugs is the most cost-effective way to contain rising health costs. As e result, US volumes are growing at a healthy 7 per cent and much faster for companies with innovative products. The three big UK companies have a total of 30 compounds filed for approval or in late-stage clinical trials. On top of that, the pharmaceuticals industry is in the midst of a technological revolntion. Techniques like genomica and rapid screening of chemicals could provide a huge boost to research and development productivity and thus profitability.

This has pushed up valuations. Even so, the UK stocks on multiples of 21-23 times forecast 1998 earnings are trading at a 20 per cent discount to the best of their US peers. They continue to look attractive.

British Airways

While the rest of the British economy gave up strikes years ago, the nation'e former favourite sport somehow manages to cling on at British Airways. Even at BA, of course, the rhetorical battles now tend to amount to little more than harmless gamesmanship. But not quite this time. For a start, BA faces not ons threat bnt two: cabin crew members having voted to strike, ground staff are also being balloted. This looks worryingly like a concerted trial of strength – the irresistible force of BA's £1bn cost-cutting programme colliding with the seemingly immovable object of the Transport and General Workers' Union. And the TGWU has a powerful rallying cry at its disposal. After all, if members do not stand up and fight now, where will the seemingly inexorable cost-cutting and contracting-out end?

The snag, of course, is that this is e battla the union is almost bound to lose. For one thing, the TGWU lacks a really compelling *casus belli*; its specific complaints look a bit flimsy to sustain a long, broad-based dispute. Mr Tony Blair hardly seems a promising source of political support. And fundamentally, baggage handlers and air hostesses do not have pilots' scarce skills; they can be replaced pretty easily.

In short, this is the kind of battle both BA and its unions have little choice hut to fight. And it is one the airline has e good chance of winning. But do not be surprised if BA turns out to have a sticky summer ahead.

Additional Lex comment on Page 24, UK huses

FT WEATHER GUIDE

Europe today

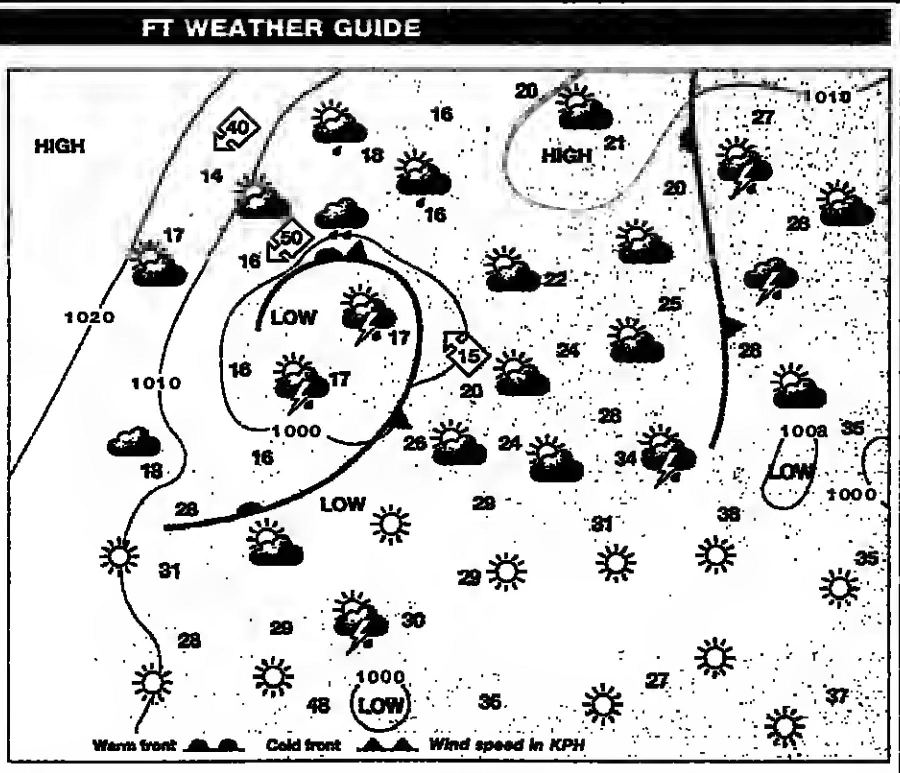
High pressure will bring mainly sunny and warm conditions to most of southern Europe.

Low pressure will cause thunder showers in the eastern Balkans and near the Black Sea. Another depression will stall over the Low Countries. The associated cold front will cause rain and thunder from the Alps across Germany towards Denmark. There is a risk of local flooding in the southern Alpes. There will be more showers and some local thunder in the cool air behind the front.

A north-easterly flow will draw cool and rather dry air towards Ireland.

Five-day forecast

Unsettled conditions with unseasonably low temperatures will persist over western Europe as a depression shifts slowly from the Low Countries towards Scandinavia. Thunder showers will develop in the western half of southern Europe. It will stay sunny and warm in the south-east.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	fair 32	Caracas	thund 32	Faro	sun 27	Madrid	sun 29
	Celsius	Belfast	cloudy 14	Cardiff	cloudy 15	Frankfurt	thund 19	Majorca	sun 27
Abu Dhabi	sun 40	Belgrade	fair 25	Casablanca	sun 24	Geneva	thund 16	Malta	sun 26
Accra	shower 28	Berlin	fair 22	Chicago	sun 29	Gibraltar	sun 27	Manchester	cloudy 12
Algiers	sun 29	Bermuda	sun 28	Cologne	thund 18	Glasgow	cloudy 15	Manila	rain 35
Amsterdam	shower 17	Bogota	thund 19	Dakar	fair 29	Hamburg	rain 16	Melbourne	fair 12
Athens	fair 29	Bombay	thund 32	Dallas	shower 32	Helsinki	shower 19	Mexico City	shower 26
Atlanta	shower 33	Brussels	shower 17	Delhi	fair 34	Hong Kong	rain 30	Miami	fair 32
B. Aires	shower 16	Budapest	fair 24	Dubai	sun 40	Honolulu	shower 31	Milan	thund 18
B'ham	rain 12	C'hagen	rain 17	Dublin	fair 15	Istanbul	fair 24	Montreal	fair 26
Bangkok	thund 36	Cairo	sun 33	Dubrovnik	fair 25	Jakarta	shower 32	Moscow	rain 25
Barcelona	fair 24	Cape Town	rain 15	Edinburgh	cloudy 14	Jersey	shower 13	Munich	rain 20
						Karachi	fair 37	Nairobi	fair 24
						Kuwait	sun 45	Naples	fair 25
						L. Angeles	sun 24	Nassau	fair 32
						Las Palmas	fair 26	New York	shower 32
						Lima	sun 26	Nice	rain 23
						Lisbon	fair 21	Nicosia	sun 29
						London	rain 16	Oslo	rain 18
						Lux.bourg	rain 15	Paris	rain 18
						Lyon	shower 22	Perth	fair 21
						Madeira	sun 24	Prague	fair 21

Rangoon	thund 29
Reykjavik	sun 14
Rio	fair 27
Rome	fair 26
S. Frsco	sun 23
Seoul	rain 31
Singapore	cloudy 33
Stockholm	fair 18
Strasbourg	rain 18
Sydney	thund 14
Tangier	sun 28
Tel Aviv	sun 29
Tokyo	fair 29
Toronto	sun 26
Vancouver	shower 18
Venice	shower 20
Vienna	cloudy 23
Warsaw	cloudy 21
Washington	fair 35
Wellington	shower 11
Winnipeg	shower 27
Zurich	rain 17

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1997 Thursday June 26 1997 Week 26

IN BRIEF

Anglo supports Lonrho merger

Anglo American, the South African mining giant, expressed support for a merger between mining house JCI and Lonrho, the UK conglomerate. Anglo denied talk that it had devised the plan as a means of acquiring Lonrho's 33 per cent stake in Ashanti Goldfields of Ghana. Page 18

Compagnie Bancaire buys subsidiaries
Compagnie Bancaire, the financial services group controlled by Paribas, launched a FFr3bn ($510m) bid to buy out the minorities in two of its subsidiaries. The takeover covers Cardif, a life assurance and investment group, and UFB Locabail, a lender to small business. Page 18

Danes to sell more of Tele Danmark
The Danish government intends to sell "all or part" of its remaining 52 per cent of the shares in Tele Danmark, the former monopoly telephone services provider. Page 18

Opec bid to thwart quota cheating
Iran and Saudi Arabia continued to put pressure on their colleagues in the Organisation of Petroleum Exporting Countries to come up with ways to improve production discipline and curb the problem of quota cheating. Page 28

Boston Chicken loses its sizzle
Fast-food business Boston Chicken, one of Wall Street's most successful new arrivals of the decade, has reined in its expansion plans after admitting mistakes that have seen its growth fizzle. Its shares had risen from $10 in 1993 to more than $40 at the end of last year. Page 22

Danisco profits up 12% at $271m
Annual pre-tax profits at Danisco, the Danish food and beverages and packaging group, rose 12 per cent to DKr1.78bn ($271m) in the year ending March 31. Page 18

Hainan Airlines to list in Shanghai
Hainan Airlines is to list on the Shanghai foreign currency stock exchange, the first Chinese company with a foreign shareholding to float on China's domestic stock markets. Page 16

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
AG Ind & Verk	39.10	+	2.90	Air Liquide	975	+	19
Deutsche Bk	104.30	+	4.80	Alcatel	744	+	32
Karstadt	650.50	+	19.50	Cred Lyon	310.10	+	35.50
Preussag	522	+	13.50	l'Oreal	2452	+	112
SAP	355.80	+	9.80	Sommer-Allibrt	212	+	14
Falls				**Falls**			
Altana	1850	–	10	Fromageries Bl	4195	–	55
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Suiza Foods	38¾	+	3¾	Asahi Bank	955	+	35
Templeton Rssa	43¾	+	3½	Casio Cmpt	968	+	31
Waterlink	13½	+	2½	Chuo Tst	750	+	39
Falls				Hitachi Maxell	2870	+	100
Arrow Elec	54⅛	–	3⅝	IBJ	1830	+	140
IMC Global	36⅜	–	1½	**Falls**			
Zeigler Coal	24⅝	–	2½	Isetan	1500	–	40
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Cater Allen	580	+	22½	Amoy Props	8.30	+	0.20
Hambro Clywide	123	+	8	Cosco Pacific	15.45	+	0.75
Pace Micro	70	+	6½	First Pacific	9.75	+	0.20
Falls				Kowloon Mtr	17.20	+	1.40
Bryant Grp	132½	–	5	Shaw Bros	6.35	+	0.25
Glynwed	248	–	11	**Falls**			
Royal Bk Scot	575½	–	22½	HK Electric	31.90	–	0.70
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Q Fung Man	25.30	+	1.75	Advanced Info	178.00	+	16.00
Domtar Inds A	8.25	+	0.65	Shinawatra Cmp	148.00	+	13.00
Reitman's	14.55	+	1.20	Thai Factory	49.50	+	4.50
Falls				**Falls**			
Bolivar Bldids	1.15	–	0.88	Foremost	72.00	–	8.00
Crown Life Ins	85.00	–	7.00	Head Trip	27.50	–	3.00
E-L Fin Corp	210.00	–	35.00	Thai Iryo	0.90	–	9.60

New York & Toronto prices at 12.30

CCA seeks to cash in on Wall Street's appetite for property stocks

Prisons group in real estate move

By John Labate in New York

Corrections Corporation of America (CCA), the largest US private prison operator, is to launch the first real estate investment trust based on prison properties in one of the most unusual public offerings this year.

In an effort to cash in on Wall Street's growing appetite for real estate stocks, CCA is to form CCA Prison Realty Trust, which is expected to have its public offering in July at a price between $19 and $21 a share.

Real estate investment trusts, or Reits, enjoy special tax treatment in the US, but are also required to distribute 95 per cent of their taxable income to investors through dividends.

To lure investors, CCA Prison Realty Trust is expected to yield some 8.5 per cent, based on a projected annual dividend of $1.70 and an offer price of $20 per share.

Proceeds from the offering, set for $308m, will go towards the purchase of nine prison facilities from CCA, which will then be leased back to CCA. CCA stands to raise a huge amount of cash for its future expansions as well as clean off those assets from its balance sheet.

Nashville-based CCA holds over half of the growing US private prison market, with earnings last year rising by 115 per cent to $30.9m on a 41 per cent increase in revenues to $293m.

The company is also expanding abroad. Through a joint venture with France's Sodexho, CCA manages a prison in the UK and two in Australia. Sodexho holds 16 per cent of CCA's common stock. CCA plans to continue its overseas expansions, with South Africa and Canada said to be the markets it is most interested in.

CCA is one of a number of companies operating prisons in the US. As prison overcrowding becomes a problem in many US states, some local authorities have found it more efficient to hand over responsibility for prison operations to private companies. These have begun to make profits by building – as well as operating – prisons, which means they require greater capital and need to consider new sources of finance.

Some controversy surrounds CCA's relationship with the new property trust since both companies will effectively be run by CCA's chief executive, Mr Doctor Crants.

"It's in CCA's interest to have both companies do well," said Mr Ryan Jacob of IPO Value Monitor, in New York.

The IPO also provides further evidence of the popularity of US real estate investments this year. New issues have included Boston Properties, the real estate investment trust chaired by Mr Mort Zuckerman, the media baron, which launched its IPO last week. Other real estate IPOs are in the pipeline.

Eurotunnel's restructuring plan boosted

By Andrew Jack in Paris

The president of one of Eurotunnel's largest shareholder groups said yesterday that he was likely to support the company's restructuring plan if its operating concession for the Channel tunnel was extended.

His support could prove decisive in the company's battle to gain approval for its £8.5bn ($14bn) financial restructuring plan. The plan negotiated between Eurotunnel and its 174 creditor banks must be approved by shareholders at an extraordinary general meeting on July 10.

Indications over the last few days suggest that three groups of investors who are gathering proxies may already have amassed sufficient votes to obtain a blocking minority at the meeting. That would jeopardise the restructuring plan and could lead to Eurotunnel being declared insolvent.

However, Mr Christian Cambier, head of the Association of Eurotunnel Shareholders, which could wield proxy votes from investors holding more than 10m shares and which has been expressing doubts about its support for the plan, indicated he would support the restructuring plan if the concession was extended.

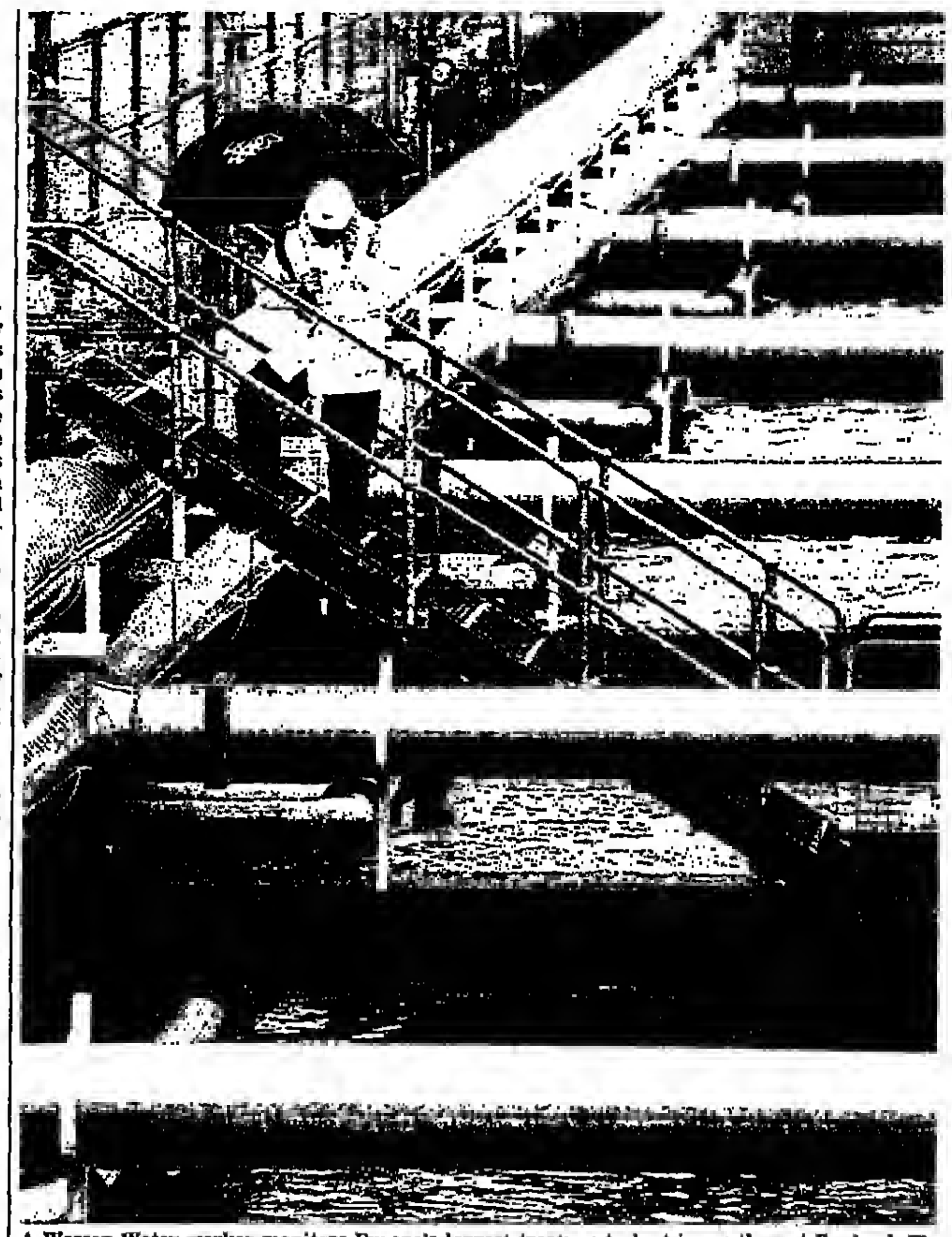
His comments follow fresh signs that the British government may be prepared to extend Eurotunnel's exclusive concession to operate the tunnel beyond the current expiry date of 2052. Eurotunnel says an extension to the concession is crucial to persuade its 730,000 investors to back the restructuring plan. The change would boost the company's future income, provide extra money for creditor banks and enhance the value of Eurotunnel shares.

Mr Patrick Ponsolle, the chairman, said on Tuesday that talks between the company and the French and UK governments had recently resumed "with the objective of reaching at least an agreement in principle" in the next few days.

The French government has for a long time agreed to Eurotunnel's demands, but the British government appeared for the first time on Tuesday to be moving towards support for the idea, while demanding in exchange that the company make efforts to increase the volume of long-distance rail freight transported through the tunnel.

Mr Cambier's association, which numbers 2,800 members, says its support for the plan is also dependent on a clear commitment by Eurotunnel to reduce its operating costs and a "significant gesture" from the banks in their restructuring proposals.

His association's 20-strong committee is due to vote on the proposals on July 2.



A Wessex Water worker monitors Europe's largest treatment plant in south-west England. The UK utility reported annual pre-tax profits up 8 per cent to £145m ($240m) and an 18 per cent increase in its dividend payout. Report, Page 24
Picture: Phil Yeomans

Daimler disposal set to boost IT business

By Andrew Fisher in Frankfurt

Daimler-Benz, the German motor and industrial company, is selling its 24.4 per cent stake in Cap Gemini, the big French software consultancy, to raise up to DM1.5bn ($870m) to strengthen its information technology business.

The decision reflects the US legal difficulties that would have been involved in Daimler raising its shareholding to take full control.

The US Bank Holding Company Act limits banks' activities in the IT business and would have affected Daimler because Deutsche Bank owns a 23 per cent stake. The steep rise in Cap Gemini's share price was also a deterrent to Daimler raising its holding.

The withdrawal of Daimler – now back in profit after a costly restructuring programme – from its six-year involvement with the French company also marks a further step away from the strategy of Mr Edzard Reuter, former chairman of Daimler, who wanted to make the group a diversified technology concern.

The Cap Gemini stake will be sold to institutions outside the US – mainly in France, the UK, Germany and Switzerland – through an issue of exchangeable notes arranged by Goldman Sachs, the US investment bank. The stake is owned by Daimler-Benz InterServices (Debis), the group's financial services and mobile telecommunications division.

The notes will be priced on Monday at a premium of between 14 and 18 per cent over the French company's share price, which closed yesterday at FFr345 ($59.27) against FFr251 at the start of the year. There will be a French franc tranche for French investors and one in dollars for other institutions.

By placing its Cap Gemini stake in the form of exchangeable notes, Daimler aims to avoid depressing the market. Investors will be able to exchange the notes at any time for shares in the French company.

Debis will also buy Cap Gemini's 19.6 per cent stake in Debis Systemhaus, part of Debis. Mr Jürgen Schrempp, Daimler's chairman, said the IT sector "has excellent profit potential."

Morgan Stanley profits fall

By Richard Waters in New York

Morgan Stanley Dean Witter Discover, Wall Street's newest investment banking giant, recorded an 8 per cent decline in quarterly earnings in the first period since the merger which created it in late May.

The weaker results reflected the jitters which hit the US stock market this spring, as well as a merger-related restructuring charge. These were largely offset by a large one-off gain on an equity investment at Morgan Stanley's merchant banking unit.

Morgan Stanley said the fall in share prices during March and April had hit the its profitable equity underwriting business. After-tax profits from securities activities reached $312m, around 13 per cent below the level the two banks recorded between them in the previous quarter and in the same period a year before.

Despite that, the three months to the end of May represented a continuation of a buoyant period for Wall Street, said Mr Bob Scott, chief financial officer.

"In the historical perspective, it was a terrific quarter," he said. The number of companies planning to come to the market or considering mergers or acquisitions pointed to a strong third quarter, he added.

The quarterly figures also confirmed the greater earnings stability from combining Morgan Stanley's investment banking and trading businesses with Dean Witter Discover's retail investment, mutual fund and credit card operations.

The combined firms' net income from asset management climbed 82 per cent to $149m as revenues rose at a similar rate to $635m, in part thanks to merchant banking revenues of $129m on an investment gain.

After-tax profits from the Discover credit card were $129m, unchanged from a year before. A jump in the loan loss provision, as write-offs rose to over 7 per cent of assets, was offset by continued growth in consumer loans.

Philippine sell-off fails as uncertainty deters bidders

Justin Marozzi in Manila

The Philippines' largest privatisation of the year collapsed yesterday after failing to attract bidders.

The government had been aiming to raise about 8.8bn pesos ($337m) through the sale of its 65 per cent stake in Food Terminal (FTI), a 120ha agro-industrial complex in Manila that houses 200 small- and medium-sized businesses. "We were set to receive all the bids but nobody came to submit them," said an adviser to FTI. "It is disappointing for everybody. The government was hoping for a winner and so was the private sector."

The Philippines' four-year privatisation programme has been one of the most comprehensive in the region, spanning Philippine Airlines, Philippine National Bank, National Steel Corporation and Manila's water and sewerage network. But the drive, which effectively sustained the country's budget surplus since 1993, has lost momentum.

The government, which is facing a declining budget surplus in 1997, had hoped the sale would help it recover its initial investment of 600m pesos in FTI and repay loan obligations to government agencies of some 1.2bn pesos.

Enthusiasm for the project appears to have waned in the days leading up to yesterday's planned submission of bids. Late last week, Keppel, the Singaporean conglomerate, pulled out. On Monday, Metro Pacific, the Philippines' arm of Hong Kong-based First Pacific, which was part of another consortium bidding for the project, said the investments required were not commensurate with expected returns.

Filinvest Development, another local conglomerate, also failed to submit a bid. An FTI official said the initial investments plus development costs required totalled at least 26.6bn pesos ($1bn).

Analysts said the unclear status of FTI's tenants, many of whom have long-term leases, deterred investors. "There were too many issues which made the deal expensive at the floor price," said Mr Seumas Gallacher, executive director at Metro Pacific.

This was the third attempt to privatise FTI, following two abortive efforts in 1990. Its future is unclear but the government may return to proposals by FTI tenants to buy the land themselves.

China regional carrier to offer shares on exchange reserved for foreign investors

Hainan Airlines lists in Shanghai

By James Harding in Shanghai

Hainan Airlines will list on the Shengbai foreign currency stock exchange today, the first Chinese company with a foreign shareholding to float on China's domestic stock markets.

Hainan Airlines is listing 71m B-shares – stocks on the Shanghai exchange denominated in US dollars and, in theory, reserved for foreign investors – priced at Yn3.90, or the equivalent of $0.47 a share.

The listing is expected to be well received by investors, whose confidence in the company has been reinforced by the 25 per cent stake already owned by American Aviation, an investment fund partially controlled by Mr George Soros, the financier. American Aviation bought its share of the company in 1995 for about $25m.

Hainan Airlines, a regional carrier serving Hainan island, south of the mainland, will be China'e first domestically listed airline.

The company is one of the country's more promising regional airlines, as the island's heaches and tropical climate make Hainan one of the most popular destinations for Chinese tourists. Hainan has a second regional hub at the port city of Ningbo, on China's east coast, and operates 40 domestic routes.

Passenger traffic revenues more than doubled between 1994 and 1996, from Yn376.6m to Yn864.1m ($104m). Turnover in China's aviation sector as a whole has grown at 20 per cent per year in the past 10 years, the fastest growth rate in any region in the world.

Hainan last year recorded pre-tax profits of Yn94.5m compared with Yn42.7m in 1995, on turnover of Yn884.2m, up from Yn526.1m.

The airline is seeking approval to fly to Hong Kong and Macau from 1998 and for other international routes. It is also considering plans to offer cargo services in China using its existing traffic rights.

The company has a fleet of 13 aircraft and aims to use the $31.7m raised by the listing to purchase the equipment and facilities for three Boeing 767 aircraft it plans to buy.

Building bridges to the mainland

Hong Kong companies are taking stakes in Chinese groups, writes Louise Lucas

HONG KONG July 1 1997

China's march on corporate Hong Kong is not all one-way traffic. Companies in the territory are buying stakes across the border, further binding the economies as they prepare to come under the same flag.

The latest target is China Southern Airlines, the Guangdong carrier which is seeking a listing on the Hong Kong Stock Exchange. New World Development and Sun Hung Kai Properties, two Hong Koog property developers, bave confirmed their intention to take stakes, and it is likely they will be joined by companies controlled by Mr Li Ka-shing, one of the territory's wealthiest and most powerful businessmen.

The Hong Kong spending spree in China took off earlier this year, altbough it has been lagging behind the movement in the opposite direction, which has seen mainland hodies acquire slices of the territory's aviation, power and telecom industries.

"The trend is towards massive cross-holdings: not just in H share companies [Chinese enterprises listed in Hong Kong] like Beijing Datang, but also in red chips [mainland-backed companies]," says Mr John Pinkel, head of China research at Merrill Lynch.

"We are going to see more of it, and that is going to have implications for valuations: interdependent companies will all go up together and down together, so there will be a magnifying impact," Mr Pinkel says.

Among the biggest stakebuilders on the mainland is New World Development, which last year hived off its infrastructure arm. New World Infrastructure (NWI) then took 9.9 per cent of Beijing Datang – a power company which became the first Chinese state enterprise to secure a London listing – as well as smaller interests in another three mainland companies.

The move should give New World bigger opportunities across the border in the future, analysts say. It is the same dynamic at work whenever Chinese and Hong Kong companies join forces – the acquisition of connections.

"I'm sure that one of the key attractions is the sourcing ability in future to secure projects, because the companies heing hought have either strong political influence or strong municipal influence," says Mr Keith Wu, head of Hong Kong research at Peregrine Brokerage.

In the case of the H share companies, atake-building buys credibility at parent company level, which is likely to generate the lion's share of projects.

Others say that the companies coming to market are offering advance stakes, in the belief that having blue chip companies or investment banks on the share register will lend credibility to their issues – though this does not guarantee success.

The concept of cross-boldings is not new: Mr Li Ka-shing, who controls Hutchison Whampoa, the Hong Kong conglomerate, was a keen buyer of minority stakes in smaller companies in 1993 and 1994 as a means of cementing relationships.

Peregrine Investments had also been building stakes before this year – which, given its role in bringing companies to market, has irked a number of institutional buyers, who say there is a conflict of interest.

This has been highlighted in a string of recent transactions involving red chips whose issues were heavily oversubscribed, raising question marks over pricing.

Peregrine denies a conflict of interest, saying instead that it is a show of faith – "particularly when dealing with mainland companies" – and part of its investment strategy. It says most stakes are held for the long term: six months is the absolute minimum.

Institutions point out another reason for investment banks to take stakes: obtaining a bigger slice of the action in future.

Red chips, in particular, have proved active once launched on the stock market, issuing secondary offerings and acquiring assets, which is all lucrative business for the "friendly" bankers on board.

Other banks have begun to follow suit. Morgan Stanley bought shares in the issue it sponsored for Beijing Enterprises, which was 1,276 times subscribed.

For both banks and corporates, the process is set to continue.

"It's not going to be a complete 'reverse takeover', but very much a relationship-driven, strategic alliance opportunity for the future expansion of companies in Hong Kong," says Mr Keith Wu, at Peregrine.

Fujitsu to start producing IC cards

By Michiyo Nakamoto in Tokyo

Fujitsu is to mass-produce integrated circuit cards at a new plant in Japan as part of a plan to build up its business in electronic commerce systems.

The Japanese company will later this year start manufacturing about 1m cards annually to meet expected growth in demand caused by increasing competition resulting from Japan's "Big Bang" financial deregulation.

Fujitsu is bringing together its expertise in automatic teller machines, point-of-sales terminals, servers and other hardware to build comprehensive solutions for electronic commerce.

The company expects revenues from this business to grow from about Y1bn-Y2bn next year to Y10bn ($87m) by 2000.

Integrated circuit cards use memory chips to contain pre-recorded information. They are expected to replace the cards issued by credit-card companies, banks and railway companies – or those used to pay highway and other tolls – which use magnetic tape to store information.

IC cards are capable of storing more information than credit cards using magnetic tape, and are more durable and secure. In hospitals, for example, they can be used to contain health insurance information in addition to working as a pre-paid card.

Visa International, the US credit card company, and Mondex, the UK company that is developing "electronic money", have their own standards for IC cards, which Fujitsu believes will become global standards.

The Japanese company plans to develop cards based on each standard and aims to expand overseas by providing its cards on an original-equipment manufacturer basis.

ASIA-PACIFIC NEWS DIGEST

Chinese group raises US$130m

Jardine Fleming, the Hong Kong investment bank, yesterday announced it had completed a global placement of a US$130m euroconvertible bond issue for Guangdong Investment, the mainland-controlled conglomerate. The deal marks the latest sign of improved ties between Chinese businesses and Jardine Matheson, one of the joint venture partners of Jardine Fleming. According to Jardine Fleming, the bond issue was eight times subscribed within 36 hours of its launch earlier this week.

Mr Herbert Hui, managing director of Guangdong Investments, said the funds would be used to develop its businesses, which range from infrastructure to energy and hotel management. The bonds carry an annual 1 per cent coupon and can be converted into shares at HK$13.75 during the five-year life of the issue. The price represents a 25.45 per cent premium over the average closing price of the shares over the past five days.

John Ridding, Hong Kong

Birla AT&T in $283m loan

Birla AT&T Communications yesterday announced India's largest offshore telecoms financing arrangement to date: a $283m syndicated loan, which concludes financing for the company's $1.5bn project to build a large cellular network in India. Birla AT&T is a joint venture between Aditya Birla, the Indian industrial group, and AT&T, the US telecoms group. The loan was arranged by Bank of America through its subsidiary BA Asia and Toronto Dominion and is divided into a foreign and Indian rupee component.

Birla AT&T was awarded a licence in December 1995 to provide cellular services in Gujarat and Maharastra (except Bombay) in west India, two of the country's most commercially active states. It is paying $1bn over 10 years for the licence and has committed $600m to establishing the network. Since its start-up in 1996, the network has attracted 11,000 subscribers and aims for 1m subscribers by 2006.

Khozem Merchant, New Delhi

Kia reorganises units

Kia Group of South Korea is to restructure its 28 units, ranging from cars to steel, which could involve consolidating units in similar industries. Earlier this week Kia said it would sell land worth Won795bn ($896m) to improve cash flow. At the same time, the Korea Development Bank, the state-run industrial bank, said it would extend Won30bn in loans to Kia Steel, which is suffering from a shortage of operating funds. The bank said it had not received any loan requests from other Kia subsidiaries.

● Shares in Dainong companies rose to their daily limits yesterday after the South Korean group said it would put up its equity in the holdings as collateral for Won15.9bn in emergency funds.

AP-DJ, Seoul

Price cuts hurt NZ Post

Profits at New Zealand Post, the state-owned company, fell nearly one-third to NZ$47.7m (US$32.62m) after it cut postal rates to stay competitive, as the government moved to withdraw its monopoly. The cut in charges cost NZ Post NZ$35m.

However, as a result of the cut, NZ Post's letter volumes rose 6 per cent last year. Sales rose 3 per cent to NZ$678m, and expenditure grew 11 per cent to NZ$613m.

Terry Hall, Wellington

هكذا من الاصل

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FAGE

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9% Senior Notes due 2007

SOLE MANAGER

MEXICO

April 25, 1997

US$200,000,000

COPAMEX

Copamex Industrias, S.A. de C.V.
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LEAD MANAGER

PHILIPPINES

February 25, 1997

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Philippine Long Distance Telephone Company

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LEAD MANAGER

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Bancaire in FFr3bn consolidation bid

By Andrew Jack in Paris

Compagnie Bancaire, the specialist French financial services group controlled by Paribas, yesterday launched a FFr3bn ($515m) bid to buy out the minority investors in two of its partly-owned subsidiaries.

The friendly takeover – which covers Cardif, a life assurance and investment group, and UFB Locabail, a lender to the small business sector – represents an important consolidation in Francs's financial services sector.

Compagnie Bancaire has offered FFr900 for each of the 2.3m outstanding shares, representing 39.4 per cent of the capital, in Cardif, and FFr600 each for the 1.6m outstanding shares in UFB Locabail, representing 27.5 per cent.

Mr Philippe Wahl, deputy managing director of Compagnie Bancaire, said: "This is a win-win situation. It gives us more flexibility in our financial management, and greater freedom to distribute our capital and increase profits, while offering a good price for the minority shareholders."

He stressed that the group had sought a fairness opinion from the specialist advisers Associéa en Finance, which placed a valuation of FFr825-FFr871 a share on Cardif and FFr503-FFr552 on UFB Locabail. Those values represent a premium to the average quoted price over the past three months of 28 per cant and 13 per cent, respectively.

If successful, the bid will allow the group to consolidate fully the results from the two subsidiaries, which are highly profitable, in part to compensate for the heavy losses been from provisions in its property activities.

Mr Wahl said the acquisitions would help accelerate Compagnie Bancaire's objective of achieving a 15 per cent return on equity "as soon as possible". He said further acquisitions could follow, but the group considered it was best to launch takeovers on "two companies which are solid and in which we have confidence".

To finance the operation, the group plans a preferential rights issue of up to FFr2bn, in which its parent Paribas will fully take up its subscription rights. It made a commitment to maintaining its BIS Tier One solvency ratio at equal to or greater than 10 per cent.

Mr Wahl declined to comment on whether discussions were under way with Paribas, which recently increased its stake to just over 50 per cent, to buy further shares in Compagnie Bancaire.

Anglo backs JCI-Lonrho merger

By Mark Ashurst in Johannesburg

Anglo American, the South African mining giant, yesterday expressed support for a msrger between mining house JCI and Lonrho, the UK-based conglomerate, but denied it was the architect of the deal.

Mr Julian Ogilvie Thompson, Anglo chairman, said the proposed merger "seemed to us to make sense. JCI lacked critical mass, and Lonrho needs more technical people, who are here in Johannesburg". But he denied that the plan had been devised by Anglo as a means of acquiring Lonrho's 33 per cent stake in Ashanti Goldfields of Ghana, the lowest cost gold producer in Africa, in exchange for its stake in Lonrho.

Anglo is the largest shareholder in Lonrho, with 27 per cent, and retains an effective 18 per cent stake in JCI.

Last month, it was ordered by the European Commission to reduce its holding in Lonrho to below 10 per cent within two years to avold cooceotration in the platinum industry.

Lonrho and JCI confirmed on May 18 they were in "exploratory" merger talks. The deal would create an international mining group valued at about $3bn. Anglo is prepared to cancel its stake in Lonrho in exchange for the UK group's holding in Ashanti.

Mr Ogilvie Thompson said the merger was the brainchild of Mr Mzi Khumalo, JCI chairman, who led a consortium of black investors which bought a controlling stake in JCI from Anglo last year.

"I want to dispel any idea that we are running this thing," Mr Ogilvie Thompsoo said. "The idea of swopping our Lonrho shares for Ashanti came from the Lonrho side, not from us."

It is understood that Anglo had earlier offered to buy the Ashanti stake. Lonrbo said last night: "We are not sellers of the Ashanti stake, bnt if somebody offered us a price that was in the interests of our shareholders, we would have to consider it."

The proposal is fiercely opposed by Mr Tiny Rowland, Lonrho's founder and a significant shareholder.

In a circular to shareholders he insisted: "JCI needs Lonrho, but Lonrho certainly does not oeed JCI."

Julian Ogilvie Thompson: plan seemed to make sense

Denmark set for further telecoms sell-off

By Hilary Barnes in Copenhagen

The Danish government intends to sell "all or part" of its remaining 52 per cent of the shares in Tele Danmark, the former monopoly telephone services provider, according to Mrs Jytte Hilden, minister for research.

Mrs Hilden, who is a member of a minority government, said she would initiate negotiations concerning the sale of the state's shares with the parties represented in the Danish parliament this autumn.

A large international privatisation share issue in the spring of 1994 raised DKr19.5bn ($2.9bn at ths then exchange rate), when the issue price was DKr310 a share against yesterday's closing price of DKr344.

Since the 1994 privatisation, Tele Danmark has made strenuous efforts to diversify internationally. It has stakes in several cellnlar network operations, mainly in eastern Europe.

In 1995, it acquired a 16 per cent share in Belgacom, the Belgian state telecoms group, and it is competing in the Swedish telephony market through Telenordia, a company jointly owned with the UK's BT and Norway's Telenor.

By the autumn, an analysis of the company, commissioned by the government earlier this year as background to a possible share issue, will be available. It is being carried out by Den Danske Bank and N. M. Rothschild & Sons.

Mrs Hildsn's statement follows the recent completion of legislation liberalising the telecommunications business and opening it up to competition. The Danish legislation was finally enacted this month, some six months ahead of the planned deadlins for liberalisation of the EU market.

"Now that the legislation is complete, it is natural to take up the issue of the state's ownership of the shares," said Mrs Hilden.

Last year Tele Danmark's profits slippsd from DKr5.45bn to DKr5.06bn ($770m), a conseqnence of beavy marketing costs for the domestic cellnlar operation. Earnings per share slid from DKr26.67 to DKr23.69, on turnover ahead from DKr19bn to DKr23.3bn.

Total assets at the end of last year were DKr47.1bn, with share capital of DKr27.9bn.

EUROPEAN NEWS DIGEST

Cariplo in L500bn Ambroveneto buy

The charitable foundation which controls Cariplo, Italy's largest savings bank, yesterday agreed to acquire a 12.7 per cent stake in Banco Ambrosiano Veneto (Ambroveneto), worth about L500bn ($270m), from Cariverona, the Verona savings bank.

The deal is a first step towards the planned merger of Cariplo and Ambroveneto, which will create one of the largest banking groups in Italy. It is also expected to accelerate negotiations between Cariplo and Ambroveneto on the framework of their strategic partnership. These are now likely to be completed by the end of July, when the two banks are expected to sign a formal agreement to establish a new holding company. This will control the banking activities of both Cariplo and Ambroveneto. The two groups also plan to float 30 per cent of the new holding on the stock market. *Paul Betts, Milan*

Crédit Lyonnais shares soar

Shares in Crédit Lyonnais, the state-owned banking group, reached a peak for the year during trading yesterday at FFr317 on the back of reports of improved profitability for 1997.

Crédit Lyonnais is expected to increase operating profits significantly in 1997 over the FFr4.5bn ($773m) achieved in 1996, in the wake of cost-cutting and improved business prospects. However, the French newspaper La Tribune suggested that the bank would report net profits of more than FFr2bn ahead of a special dividend to the French government negotiated in its rescue package, which would reduce the final profits to FFr1.5bn.

Andrew Jack, Paris

Hungarian oil stake sold

MB Petroleum Services, an Omani-registered company, has submitted the winning bid for a 90 per cent stake in the Hungarian oil company Szolnoki Koolajkutato Rt (Szolnok Oil Research), APV, the Hungarian privatisation agency, announced yesterday. MB Petroleum offered $4.459m, or 97 per cent of nominal value, for the stake and has 30 days to finalise the deal. APV officials gave no information on the Omani company.

This is the third attempt at privatising Szolnok Oil, and follows an aborted bid by Arhangelsk Gelogia, the Russian company, last year. Szolnok Oil has 800 employees and had profits of Ft200m ($1.07m) last year on turnover of Ft8.4bn. *Kester Eddy, Budapest*

Saint-Gobain sees record

Saint-Gobain, the French glass and building materials group, expects to report the best results in its history this year, according to Mr Jean-Louis Beffa, chairman.

Mr Beffa told shareholders at the company's annual meeting that the group should record 1997 net profits "significantly higher" than the FFr4.3bn ($738m) achieved the previous year. "I can assure you that your group will produce in 1997 very clearly the best result in its history," he said. Mr Beffa said that while January and February had been bad, the company had seen a clear improvement in March which had since been confirmed. Europe in particular was showing signs of recovery, he added.

David Owen, Paris

Pechiney to absorb subsidiary

Pechiney, the French aluminium and packaging group, intends to absorb its 97.3 per cent-owned Pechiney International packaging unit by the end of this year.

The company also predicted first-half operating profits "close to" the FFr1.47bn ($252m) posted in the same period of 1996. It said this result would be helped by a gain on April's sale of a 37.7 per cent stake in Le Carbone-Lorraine, a carbon products business. Pechiney said at the time that it expected this sale to yield a net gain of about FFr500m. It said second-half operating results should show "clear progress" from year-earlier levels. *David Owen*

Argentine stake for Peugeot

Peugeot, the French carmaker, has agreed to take a minority stake in Sevel Argentina as part of its push into Latin America. The company, a division of Peugeot-Citroën, will initially taks 15 per cent of Sevel, controlled by Argentina's Macri group, as part of a capital increase. It plans eventually to raise this staks to 23 per cent. The move has been widely expected since April, when Mr Jacques Calvet, Peugeot-Citroën chairman, said the group might take a small Sevel shareholding.

David Owen

Philips plans £500 CD recorder

Philips, the Dutch consumer electronics group, plans to launch an audio compact disc recorder with a retail price of about £500 ($833m) by early next year. CD recorders have been available for some time, but until recently the prices were so high that they tended to be bought for professional use within the music industry or for computing. Prices have fallen dramatically in recent months, and it is now possible to buy basic recorders for as little as $500 in the US, and about £500 in the UK.

Alice Rawsthorn

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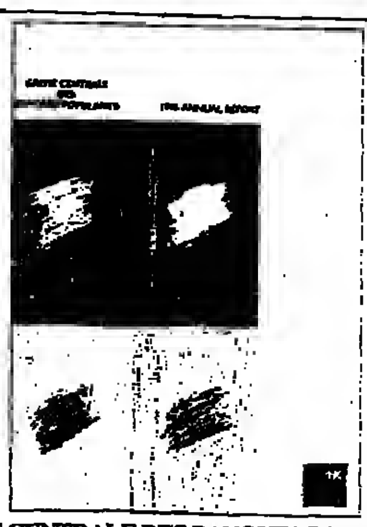

CAISSE CENTRALE DES BANQUES POPULAIRES

Caisse Centrale des Banques Populaires, the central banking, financial, and technical support arm of France's Banques Populaires Group, has diversified expertise in the areas of banking and finance. It is also a full-service bank and a financial holding company, controlling a network of specialized subsidiaries that are active players in their markets. The Caisse Centrale operates primarily in four areas: financing and corporate services, capital markets, asset management, and services for banks and financial institutions. A driving force in the modernization of the French banking industry, the Caisse Centrale puts its expertise to work for the individual Banques Populaires and for its clientele of corporations, financial institutions, and institutional investors.

66


CAISSE DES DÉPÔTS ET CONSIGNATIONS

1996 consolidated net income doubles.

Solid performance in market-driven activities; CDC Marchés turns in strong results in capital markets; CNP reinforces its leadership in life insurance; C3D confirms its profitability. Renewed support to France's general interest programs: savings funds management and public housing financing, urban and rural development support, administration of public retirement programs, equity financing in medium-sized companies.

Caisse des Dépôts Group consolidated balance sheet total: FF 842.7 billion

Consolidated net income, Group share: FF 4.0 billion

Chief Executive Officer: Philippe Lagayette

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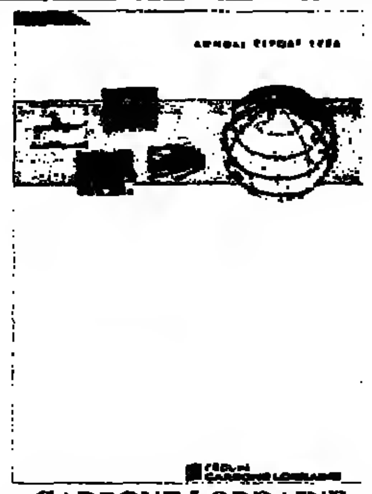

CARBONE LORRAINE

Carbone Lorraine is an industrial group specialized in electrical components, brushes for electric motors, permanent magnets and electrical protection. It has also developed a graphite speciality activity.

1996 was marked by:

- a strong growth in turnover (+20% to 3.1 billion FRF) and a significant improvement in the operating income (+59%)
- a considerable increase in the share price (15%), capitalisation over 2.5 billion FRF)

The group intends to continue to improve its productivity, reinforce its positions as leader and develop its growth potential through the geographical expansion of its sales and specific acquisitions. In 1997, the reconfiguration of the capital resulting from the sale by Pechiney of its 37.7% stake led to an increase in shareholding owned by the public which reached 76% of the total.

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CASINO GROUP

With 55,000 employees and FF 78 billion in sales, 95% of which is generated by retailing, the Casino Group is a leading French player in the food industry. In France, where Casino generates 90% of its sales volumes, the Group has benefited from its versatility by offering consumers three store formats adapted to local needs, with 110 *Géant* hypermarkets, 467 Casino supermarkets and 2,258 *Petit Casino* convenience stores. Outside France, the Group is stepping up development both in the US, via its subsidiary Smart & Final which operates 173 cash-and-carry outlets (five of which are located in Mexico) and in Poland where the first *Géant* hypermarket was opened in November 1996. International expansion is a priority for the Casino Group with the scheduled opening of seven hypermarkets over 1997/98, four in Poland, two in Taiwan and one in Uruguay.

69


CASTORAMA

France: and	132 DIY Stores 7 Builders' Merchants	
Italy	7	DIY Stores
Germany:	6	DIY Stores
Belgium:	1	DIY Stores
Poland:	1	DIY Stores
Canada:	11	DIY Stores

__Outlook for 1997:__

With its recent acquisitions in Italy and in Canada, where it has bought Réno-Depôt, Castorama expects to achieve group turnover of FF 21.8 billion including VAT in 1997. The company continues to pursue its growth targets, and plans to open new stores in France and abroad, particularly in Poland and Brazil. Castorama expects to invest some FF 1.6 billion during 1997.

CASTORAMA - **Investor Relations**
59176 TEMPLEMARS - Tel.: +33 3 20 16 75 11

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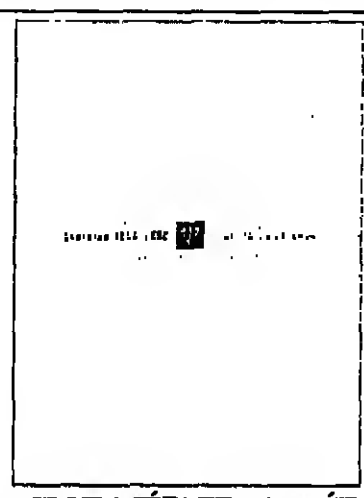

CLUB MÉDITERRANÉE

Club Méditerranée, the world's leading operator of vacation villages, enjoys a unique position in the tourism industry.

It has, furthermore, instituted a vast modernization program on several levels, whose objective is to improve its commercial performance, continue adapting its product to current market conditions and make its internal operations more efficient.

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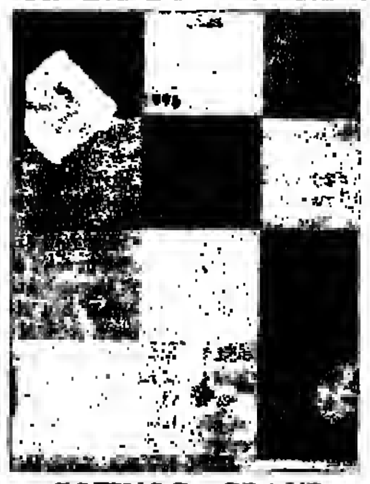

COFINOGA GROUP

CONFINOGA, which specialises in consumer credit and is the French market leader in private label cards, increased production by 25% in each of its main areas of business: cards, personal loans and instalment credit.

__Financial results at December 31st, 1996 in French francs__

- Total loans under management 20.4 billion (+15.5%)
- Net banking income 2.2 billion (+22.4%)
- Turnover on existing credit 711 million
- Net earnings 337.4 million (+18.2%)
- 4 million clients
- and 2,000 employees

__Key facts in 1996__

- Card production increased by 27.5% and personal loans enjoyed 26.5% growth rate
- Success of the POINTS CIEL customer loyalty programme
- Significant international development

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COGEMA

The COGEMA Group specialises in the nuclear fuel cycle; it is active throughout the world in all its aspects, from ore prospecting to spent fuel reprocessing and recycling, including all operations associated with nuclear fuel fabrication, as well as design and construction engineering for the corresponding installations. With its subsidiaries and other holdings, it has a large share of the market for products and services connected with nuclear energy and, outside the nuclear field, provides engineering and services to other industries. The consolidated sales revenue, which amounted to FRF 30.6 billion in 1995, reached FRF 34.4 billion, up 12.5%. The net result (Group share) amounted to FRF 977 million, a stable figure comparable to the previous financial year.

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COLAS

The world's leading road construction and maintenance company

In 1996, the slowdown recorded on the French market place was countered by external growth and international business. With sales and revenues amounting to 19.4 billion French francs, the group's share of net profits is up 3%, totalling 400 million francs for a cash flow of 1053 million francs.

Some of the highlights of 1996 are the acquisition of Sereg and the reinforcement of international activity in Ireland, Germany and Hungary for a total of 8 billion francs. In 1997, the additional 5 billion francs brought in with Sereg's turnover will further strengthen Colas' business position in France, while on-going international development will allow for improved equilibrium between the two sectors. Sales and revenues are expected to total more than 25 billion French francs.

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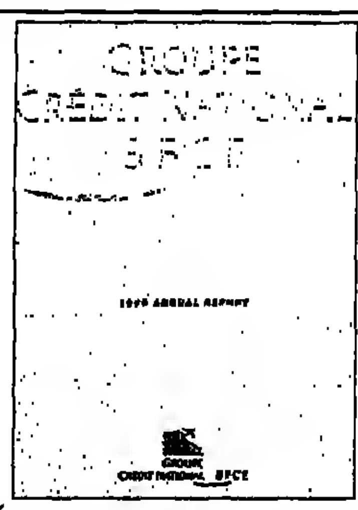

CRÉDIT NATIONAL-BCFE GROUP

(Natexis)

In 1996, a new banking group was created that resulted from the integration of Crédit National and BCFE and focuses on corporate clients. Under the name Natexis, this group now offers all the products and services required by a corporate, operating in France or internationally.

Key consolidated figures (at December 31, 1996)

Total assets:	FRF 288 billion
Solvency ratio:	9.3%

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DEXIA

Dexia, created by the merger between Crédit local de France and Crédit Communal de Belgique, is the leading European banking group specializing in the financing of public infrastructure. The group is focusing its development on the following core businesses: public infrastructure and financial services to local authorities, commercial banking and asset management. Dexia ranks among Europe's 25 leading banking institutions.

• *1996 combined net income:*	*FRF 3.2 billion*	*Euro 0.50 billion*
• *1996 Total assets:*	*FRF 1,100 billion*	*Euro 172.2 billion*
• *Total capital base:*	*FRF 48.8 billion*	*Euro 7.5 billion*

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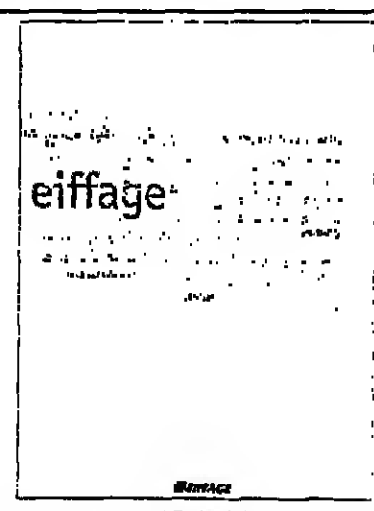

EIFFAGE

Eiffage ranks as the 6th European construction group and operates in three core sectors: Building and Civil Engineering, Road Construction and Electricity through autonomous companies each acting for their own development. At the head of a network of more than 700 subsidiaries, particularly dense in France, present also in Europe and especially Belgium, Eiffage confirms its position internationally with a number of building projects mainly in South-East Asia (Indonesia, China, Myanmar), in the Near and Middle-East (Turkey and Egypt) and in Africa (Nigeria and Senegal).

- Consolidated turnover FF 33,760 million
- Total staff: 44,927

President and Chief Executive: Jean-François ROVERATO

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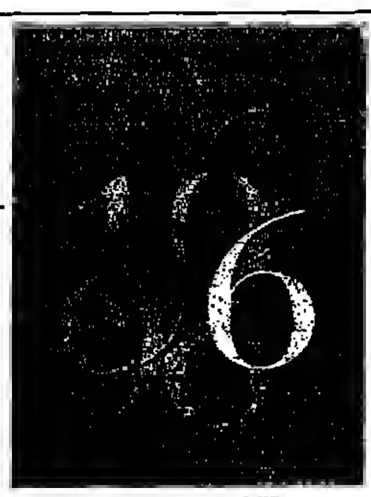

EMC GROUP

EMC is an agro-chemical group.

Its three main activities are:

- Chemicals, with organic, inorganic and fine chemical speciality products
- Animal feed and health
- Potash and fertilizing speciality products

Industry of environment and hazardous industrial wastes treatment complete the Group's activities.

Consolidated 1996 Sales: 18 billion French Francs

Chairman of the Executive Board: Bernard Pache

Main subsidiaries: Tessenderlo Chemie, Sanders, TREDI, SPCA, Potacan, MDPA.

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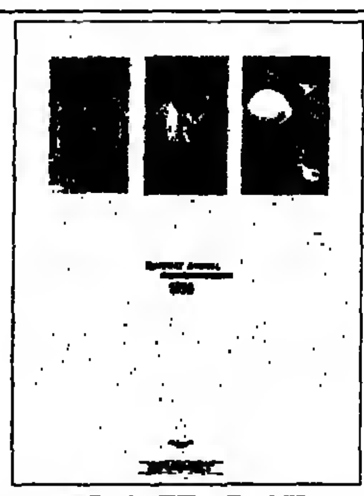

ERAMET GROUP

Eramet, a French mining and metallurgical group, operates on international markets in 3 activities:

- *Nickel:* with its large deposits in New Caledonia, Eramet is the western world's 3rd largest nickel producer and the world's leading producer of ferronickel.
- *High speed steels:* these high value-added special steels are used in the manufacture of cutting tools. Eramet is the world leader in this activity.
- *Manganese:* through its 46% shareholding in Comilog (61% in July 1997). Eramet is one of the world's major producers of manganese.

After 2 years of vigorous growth and strong cash flow, consolidated turnover reached FRF 3.9 billion in 1996, excluding Comilog.

Eramet's strategy is to develop its 3 activities by applying its know-how in 4 areas: mining, metallurgical processing, worldwide marketing of industrial products, and management of decentralised units.

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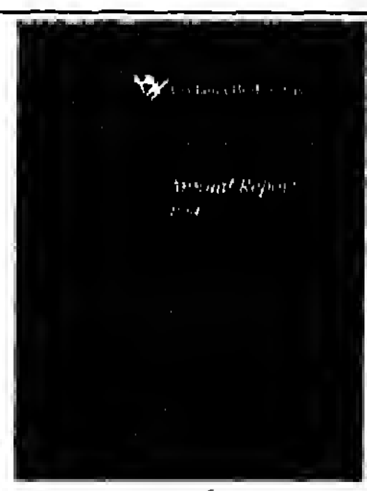

ERIDANIA BÉGHIN-SAY

Thanks to the systematic research of new industrial outlets for agricultural products and to the permanent development of quality, the Group transforms the earth's bounty into the ingredients of life. It holds leadership positions which place it among the major players in the world's food industry. In 1996, Eridania Béghin-Say boosted consolidated net sales of approximately FF 55 billion, with staff totalling 19,400 people, in more than 25 countries.

(FRF million)	1996
Net Sales	54,978
Operating Income	3,752
Net Income Group Share	1,660

Chairman and Chief Executive Officer: Stefano Meloni.

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ESSILOR

Essilor is the world leader in corrective lenses, generating four-fifths of total sales outside France, its country of origin. The Group is also active in contact lenses, instruments for opticians and eyeglass frames.

1996 Financial Highlights (FRF million)

Sales	7 845	+ 20%
Operating income	981	+ 13%
Net income	532	+ 7%

Chairman and Chief Executive Officer: Xavier FONTANET

Chief Operating Officer: Philippe ALFROID

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73. ☐ COLAS
74. ☐ CRÉDIT NATIONAL (BCFE)
75. ☐ DEXIA
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77. ☐ EMC GROUP
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COMPANIES AND FINANCE: EUROPE

Both sides win in German digital TV deal

Compromise ends a year of bickering between Kirch and CLT-Ufa, writes Frederick Stüdemann

The world of German television proved this week that events behind the scenes are often more gripping than those displayed on screen.

The country's two biggest commercial television companies, KirchGroup and CLT-Ufa, finally reached a compromise last Sunday over the development of digital pay-TV.

The deal, which is subject to regulatory approval, marks a possible end to an expensive year of bickering between KirchGroup, run by media magnate Mr Leo Kirch, and CLT-Ufa, which is 50 per cent owned by media group Bertelsmann, as both sought to grab pole position in the new frontier of broadcasting.

Under the terms of the deal, which was brokered by politicians from the states of Bavaria and North-Rhine Westphalia – two of the leading media locations in Germany – Kirch and CLT-Ufa will develop digital pay-TV around Premiere, an analogue subscription channel in which both have stakes but where CLT-Ufa has management control.

Kirch will supply Premiere, which will move over to digital, with popular US films and television programmes. in return, Premiere's 1.5m subscribers mean that Kirch can meet subscriber number guarantees given to Hollywood studios in a DM10bn ($5.8bn) rights spree last year, which will give Kirch the rights to 80 per cent of US movies, beginning in 1998.

In a third important element of the deal, Kirch and CLT-Ufa also agreed to allow Deutsche Telekom, the partially-privatised telecoms company, to administer the decoder technology required for the reception of digitally-transmitted signals.

The deal appears an ideal compromise. According to Mr Friedrich Schellmoser, media analyst at Hypo Bank, it offers all parties something: "Everyone is a winner."

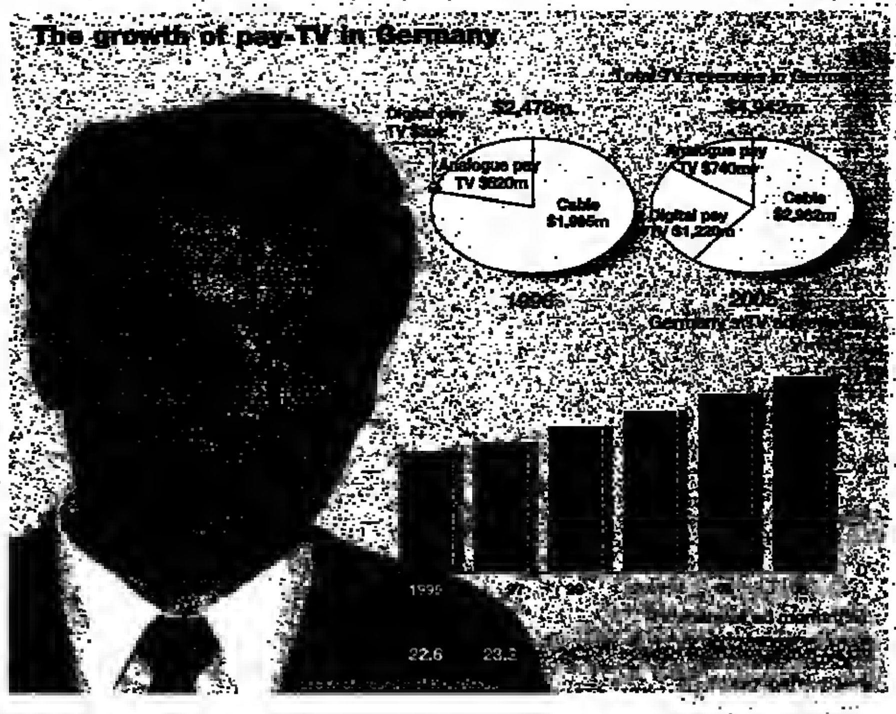
For Kirch particularly, the deal offers a welcome respite to growing financial pressures on the privately-held company.

In addition to the spending commitments made to Hollywood, Kirch spent heavily to launch DF-1, a digital pay-TV network, investing in decoder technology and placing orders for "d-box" decoders.

But DF-1 has so far proved a flop, attracting only 30,000 subscribers. According to Mr Jan Mojto, a Kirch board member, DF-1 is costing the company about DM1bn a year.

Attempts to spread the burden by attracting an outside investor in the form of British Sky Broadcasting, or through further bank loans, have also failed.

CLT-Ufa may not be facing such immediate financial problems, but it too needed to reach a deal to save its interest in Premiere, where it holds a 37.5 per cent stake. Over the past year Premiere has been growing robustly, but the medium-term future for the network looks more



worrisome. The rights to key sporting events, such as German league football, are coming up for renegotiation at the same time as Kirch's lock on US movies is due to take hold.

The deal also makes clear where the talents lie in German broadcasting. Kirch, which has a background in programme distribution, has proved less able in the more cumbersome business of running a network.

This is especially true for pay-TV, which involves managing millions of subscribers and which is one of core competencies of Bertelsmann, which made its fortune in the 1950s in book clubs.

As Mr Michael Dornemann, head of Bertelsmann's entertainment division (in which the company's CLT-Ufa stake is grouped) points out, it was not for nothing that the company chose Mr Bernd Kundrun, who came from the book clubs, to head Premiere.

Outside Germany, last Sunday's deal could produce a significant shift in the Italian pay-TV market. To realise their ambitions for Premiere, Kirch and CLT-Ufa will have to buy out the third shareholder, the French group Canal Plus, which holds a 37.5 per cent stake.

Many believe this will probably be achieved by Canal Plus taking all or part of Kirch's stake in Telepiù, an Italian pay-TV network in which both companies currently own 45 per cent.

For Mr Dornemann, the digital pay-TV deal is just part of his efforts to bring clarity to CLT-Ufa's German television interests as a whole.

"The market is clogged up at the moment. We need to see clarity," says Mr Dornemann.

His particular concern now is free-TV, which dominates the German market, offering viewers about 30 different channels. Even with a solution in digital pay-TV, Mr Dornemann says free-TV will continue to account for the bulk of business over the next 10 years.

CLT-Ufa's free-TV activities in Germany are both a source of strength and confusion. The RTL channel, in which the group has an 89 per cent stake, is Germany's biggest network in terms of audience share, and accounts for roughly 10 per cent of all CLT-Ufa's revenue. But the group also holds stakes of less than 50 per cent in a series of junior channels – RTL2, Super RTL and Vox.

Ideally, CLT-Ufa would like to bring these smaller channels closer to the main RTL network to create a "broadcasting family".

Mr Helmut Thoma, chief executive of RTL, says that such an arrangement would not only generate significant cost savings, but would also allow programming to be planned across networks.

While CLT-Ufa's ambitions are clear, realising them has proved difficult. The other shareholders in the smaller RTL channels, which include Disney and TeleMünchen, have made any sale of their shares conditional on prices or conditions – such as equity stakes in the main holding company – which CLT-Ufa says are unacceptable.

Lower financial costs help Danisco advance 12%

By Hilary Barnes in Copenhagen

Annual pre-tax profits at Danisco, the Danish food and beverages and packaging group, advanced 12 per cent from DKr1.6bn last time to DKr1.78bn ($271m) in the year ending March 31, as net financial costs declined and operating profits climbed.

Operating profits were ahead 9 per cent from DKr1.79bn to DKr1.95bn on sales up 5 per cent from DKr16.18bn to DKr17.02bn, of which some 72 per cent came from outside Denmark.

Redemption of a convertible bond last year was the main factor behind a reduction in net financial costs from DKr192m to DKr163m.

The performance was in line with expectations, but the share price ended the day at DKr420, a fall of DKr11. Analysts blamed the slip on the group's forecast that profits will grow more slowly this year.

The board proposed an increase in the dividend of 19 per cent, to DKr5 a share.

Last year wss the final one under the management of Mr Palle Marcus, in charge of the group since it was formed by the merger of Danish Sugar. Danish Spirits and Danisco in 1989. He was succeeded on May 1 by Mr Alf Duch-Pedersen, formerly chief executive of insurance group Trygg-Baltica.

Sales and operating earnings in the group's largest sector, beet sugar production, in Denmark, Sweden and Germany, increased 2 per cent, with sales up to DKr6.41bn and profits to DKr996m. Production increased from 922,000 tonnes to 1.04m tonnes. Results in the current year are expected to be in line with last year.

The packaging sector's sales rose 5 per to DKr5.23bn and operating profits rose 4 per cent to DKr459m.

The food ingredients division, which produces enzymes and flavourings for the food industry, was the year's strongest performer, with sales ahead 12 per cent to DKr2.69bn and operating profits ahead 20 per cent to DKr428m. A further "considerable improvement" is expected this year.

At the food and beverages division, which includes snacks, frozen vegetables and production of akvavit, the Danish national spirit drink, sales were ahead 5 per cent to DKr2.81bn and operating profits ahead 4 per cent to DKr208m. Competition was intense, particularly in Germany.

Financial Times Annual Report Panel Service

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EURISYS GROUP

In France and around the world, the Eurisys Group continues to help clients optimize their plant life cycle costs and outpace change by providing customers with engineering solutions and support services. The Group's strength in Engineering, Maintenance, Mechanical Systems, Support Services, Information Systems, Consulting and Nuclear Measurement enable it to cover each stage in the plant life cycle.

In 1996, the Eurisys Group had consolidated sales of around FF 6 billion, and net income of FF 158 million.

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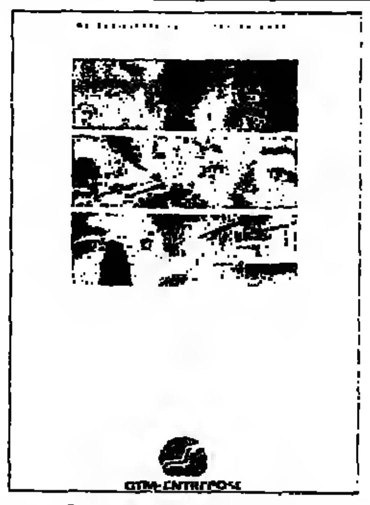

GTM-ENTREPOSE

GTM-ENTREPOSE is a diversified construction and related services group involved in design work, construction, and management services for industry and local authorities. With operations in over 90 countries, GTM-ENTREPOSE now generates 40% of sales outside France and is continuing with its drive for international expansion. Apart from the building and public works sector which accounts for half its turnover, GTM-ENTREPOSE is a leader in engineering consultancy, roadbuilding, industrial projects, electrical construction and offshore activities, and has developed a substantial business in transport infrastructure concessions.

Chairman of the board and Chief Executive Officer: Jean-louis BRAULT

Key figures: Turnover 1996: FRF 43.5 billion

Staff: 67,000

http://www.gtm-entrepose.com

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HAVAS

Havas was created in 1835 and is now the world's fifth media and communications group. Present in over fifty countries, Havas operates through five divisions: Audiovisual (Canal+, CLT-UFA, Havas Intermediation), Communications consultancy (Havas Advertising), Information and Publishing (C.E.P Communication), Local media (Havas Media Communication) and Travel and Leisure (Havas Tourisme).

1996 consolidated highlights (in FF millions):		1996/1995 change
Revenues	48,5[illegible]	+8.4%
Income from operations before taxes	2,072	+6.3%
Non-operating income before taxes	266	nm
Net income, group share	1,217	+9.4%

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IMS

IMS is a federation of national companies organised on a human scale which comprises 23 subsidiaries and 55 operating centres in 12 European countries. The Group has developed specialisations on specific markets and is represented in all major European industrial centres. As a European technical distribution group IMS sells, in some fifty countries, special metallurgical products for the anti-abrasion, anti-corrosion and engineering markets. Its products offering in France includes semi-finished plastic products. With a workforce of nearly 1,200 persons, IMS recorded in 1996, a turnover of FRF 2.8 billion and FRF 115 million of net income.

IMS: 35, rue du Pont, 92522 Neuilly-sur-Seine Cedex - France

Tel: (33-1) 41 92 04 44, Fax: (33-1) 46 24 05 96

Internet: http://www.ims-group.com

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LAFARGE

Lafarge is one of the world's foremost producers of building materials. The Group holds leading positions in each of its core business areas: cement, concrete and aggregates, gypsum and specialty products. Active in 45 countries and employing over 35,000 people generating sales of FRF 35 billion, Lafarge is committed to the development of materials and the advancement of the construction industry by bringing greater safety, comfort and aesthetic appeal to our everyday lives.

LAFARGE, MATERIALS FOR BUILDING OUR WORLD

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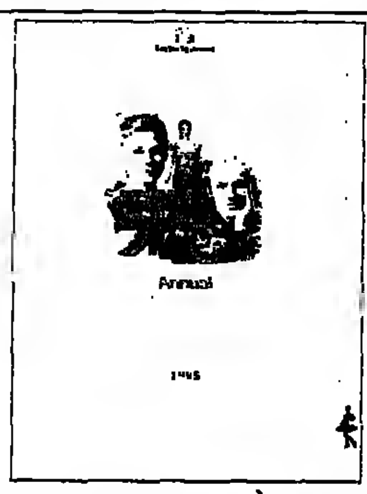

LECTRA SYSTÈMES

Set up in 1973 and publicly traded on the Second Marché of the French Stock Exchange, the Lectra Systèmes technology group is one of the world's two leading manufacturers of Computer Aided Design and Manufacturing (CAD/CAM) systems for the industries that transform fabrics, leather and technical textiles, notably those in apparel, footwear, luggage, leather goods, upholstery, automobile and aeronautical industries. Employing 1,250 people worldwide, Lectra Systèmes earns 85% of its revenue - totalling FFr 928 million in 1996 - outside France, with 6,200 customers, 29,000 installed systems and 70,000 trained users spread over 80 countries. 1996 was a year of investment which enabled Lectra Systèmes to move into 1997 with an entirely renewed product range, a dominant position in its new market sectors and a reinforced worldwide presence based on its sales and service network of 32 subsidiaries.

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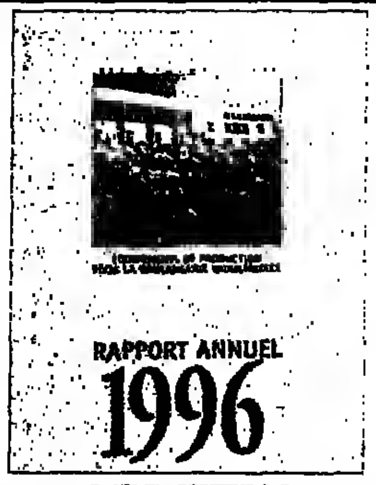


MECATHERM

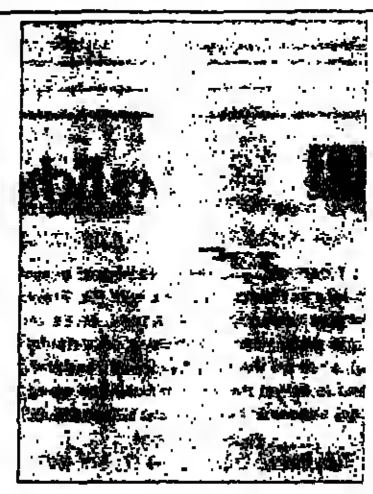
1996 turnover of MECATHERM showed an increase of 50.3% at FRF 302.4 million with 78.4% made on export. The net income showed an increase of 47.3% at FRF 42.7 million.

MECATHERM reinforces its worldwide leadership in designing and providing Industrial equipment for bread production.

After a 240% growth in 1995 and 70% in 1996, the share price went up 30% during the first 4 months of 1997.

The Chairman, René VOEGTLIN, forecasts a 1997 turnover of around FRF 365 million and a net income above FRF 50 million.

88



NORBERT DENTRESSANGLE

Norbert Dentressangle is a European transport and logistics services group. Total 1996 payroll showed 5,100 employees. Norbert Dentressangle operates a fleet of 3,200 vehicles and a wharehousing area of 450,000 sq. m. The Group's structure is divided into 2 activities: transport on the one hand and warehousing and distribution on the other hand. With an international network of 75 offices (63 in France, 6 in the UK, 1 in Italy, 3 in Spain, 1 in the Benelux area and 1 in Portugal), Norbert Dentressangle Group is today considered a major operator in the European market of logistics services.

1996 consolidated key figures:

Turnover: 2,785.2 MF

Net Results: 77.5 MF

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PINAULT - PRINTEMPS - REDOUTE

Pinault-Printemps-Redoute is a leading multi-line distribution specialist in France and across Europe. The PPR share ranks fifteenth on the Paris Bourse in terms of capitalization. The Group is structured in four operating divisions - Retail, Wholesale, International Trade and Financial Services. The central two-fold strategy of the Group is to marry growth and improve profitability in each of its businesses. In 1996, the Group continued to invest in its future development without undermining its sound financial position. 1996 consolidated information:

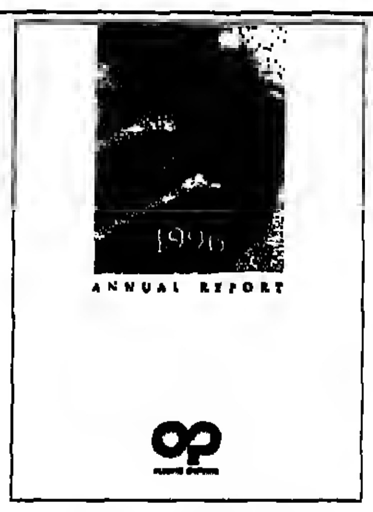
Sales: FF 80,394 million;

Operating Income: FF 3,540 million;

Net Income for the year: FF 2,065 million

Chairman of the Management Board: Serge Weinberg

90



PLASTIC OMNIUM

Fifty years after its foundation in Paris in 1947, Plastic Omnium is a European leader in the manufacture of engineered plastic products, with operations in four core businesses:

- Automotive components: bumpers, Instrument panels and fuel systems
- Municipal equipment and services in the environmental and leisure fields
- Performance Plastics Products - 3P
- Plastic components for the medical and pharmaceutical industries.

1996 Highlights

● Consolidated turnover: 7,224 million French francs, of which 51% is from outside France ● 8,700 employees ● 50 Factories worldwide, with facilities in 20 countries on four continents

Chairman and Managing Director: Jean Burelle

Innovators in Plastics

91

PRIMAGAZ GROUP

The development strategy followed by the Primagaz Group over several years has made them today the European leader in liquid petroleum gas (LPG). In the 14 countries where it has business activities, the Primagaz Group controls 21% of the distribution of LPG. It services 15 million homes and businesses in Europe and around the Mediterranean basin. The group intends to develop its activities in new countries, keeping such external growth under control as experienced in previous years.

Key Figures (in millions of francs)	1996	1997
Turnover	9271	7376
Shareholder equity, group share	4057	3807
Net profit, group share	371	334

President: M.Jean-Charles INGLESSI

92

PROMODÈS

Measured by the sales generated through its trading networks, (FRF 168 billion in 1996, 5.2% increased over 1995 - USD 34 billion), the Promodès Group ranks among Europe's ten leaders in its business sector. Its determined growth strategy has targeted diversification into various segments of the retail food trade: *Hypermarkets:* Continent, Continente - *Supermarkets:* Champion - *limited assortment discount stores:* Dia - *Convenience Stores:* Shopi, Codec, 8 à Huit, Proxi - *Cash & Carry and institutional wholesaler:* Promocash, Puntocash, Prodirest. The rapid growth of the Group's domestic business has been accompanied by expansion into foreign markets: In particular, Spain, Greece, Italy, Portugal, Belgium, Turkey and Argentina (in 1997).

Promodès WEB SITE: http://www.promodes.fr

93

PSA PEUGEOT CITROËN IN 1996

In 1996, the PSA Peugeot Citroën group confirmed its position as the third largest European car manufacturer on the passenger car market and became the European leader on the light commercial vehicle market. This year, the Peugeot and Citroën car ranges were extended to include the new Citroën Saxo, the new Peugeot 106, the Peugeot 406 station wagon, the new V6 engine, the Citroën Berlingo and the Peugeot Partner. In 1996, PSA Peugeot Citroën was once again the leading French exporter, with exports accounting for 80.6 billion French francs of total sales. Total group sales rose by 5.2% to 172.7 billion FF with worldwide sales reaching 2 million cars. Group net profit amounted to 734 million FF. Its financial position was strengthened, a surplus in working capital provided from operations was raised and debt was reduced.

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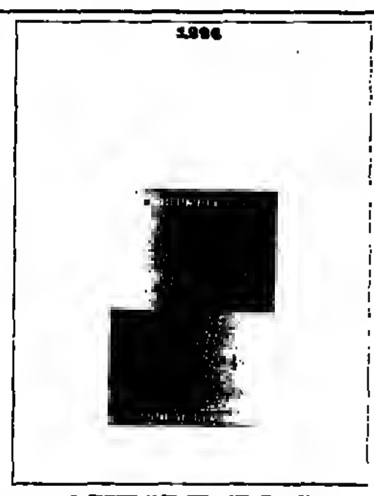
SANOFI

In 1996, Sanofi registered major successes in the clinical development of new products whilst ensuring sales and earnings growth. Consolidated net income for the year totalled FRF 1.743 billion, up by 11% over the previous year. Once again, sales of Sanofi's major international pharmaceutical products increased during the year. Sanofi continued its Research and Development efforts and successfully concluded clinical trials on two major compounds. In the Beauty sector, the second half of the year was satisfactory within a business environment which remains challenging. The Healthcare sector grew by 5% to FRF 19.8 billion at constant exchange rates and comparable Group structure. With no significant launches during the year, the Beauty sector posted sales, of FRF 3.8 billion.

95



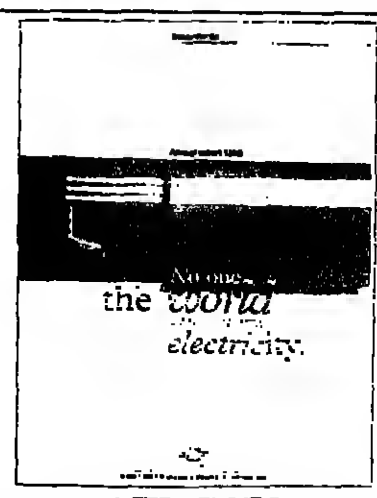
SCHLUMBERGER

An international company providing products and services in two areas:

- Oilfield Services, offer to oil companies services to enhance their efficiency in all phases of exploration and production of oil and gas reservoirs.
- Measurement and Systems, world leader in manufacturing of water, gas and electricity meters, also provide systems and services for automatic payments and automatic test equipment systems for electronic components.

1996 key figures ($ million)	
Operating revenue	8956
Net income	851

96



SCHNEIDER

After the disposal of Spie Batignolles in February 1997, Schneider refocused its activities in the businesses of electrical distribution, industrial control and automation. These activities are under the authority of SCHNEIDER ELECTRIC which comprises 4 large international brands: MERLIN-GERIN, MODICON, SQUARE D, TELEMECANIQUE. The 1996 consolidated sales (including SPIE BATIGNOLLES) rose to 61.6 billion francs and the net result of the group was 1.32 billion francs.

Chairman and Chief Executive Officer.

Didier PINEAU-VALENCIENNE

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COMPANIES AND FINANCE: THE AMERICAS

Fast-food group to revamp

By Richard Waters in New York

Boston Chicken, a company that sprung to prominence in the early 1990s by bringing healthy, home-style cooking to the US fast-food business, reined in its expansion plans yesterday and owned up to some of the mistakes that have seen its spectacular growth fizzle.

The company was one of Wall Street's most successful new arrivals of the decade. Its formula of roast chicken and ham, served with side-orders of spinach and other vegetables, appealed to an ageing Baby Boomer generation which was increasingly health-conscious.

That helped fuel a rapid rise in its shares, from the $10 at which they were first sold in 1993 to more than $40 at the end of last year.

Yesterday, however, Boston Chicken said it would put the brakes on its expansion plans and revise its marketing in an attempt to boost flagging sales at its existing stores.

Concern this year over the company's growing pains have sent its shares tumbling, leaving them yesterday afternoon at $15¼ and valuing the company at $1bn.

Boston Chicken grew from 33 stores at the end of 1991 to 1,159 in April this year, and had been planning to continue to open 300 outlets a year.

Mr Scott Beck, chairman and chief executive, said yesterday the number of new stores would be scaled back to 150-200 this year, and 150-250 in 1998.

This would allow its franchisees "better to focus on achieving maximum productivity from the existing stores and on ensuring a great customer experience," he said. The company has faced criticism about food quality flagging and slow service in some quarters.

Mr Mark Stephens, chief financial officer, added that Boston Chicken would reduce its use of coupons to attract new customers at lunchtimes, and instead refocus on promoting its dinner menu. The company's aggressive use of coupons backfired as customers used them to get discounts in the evening instead.

Mr Stephens added that store sales were likely to be "choppy" during this "transition period", and that the company was "indeed seeing sales weakness this quarter."

Boston Chicken has come in for criticism on Wall Street for extending low-interest loans to franchisees to enable them to open new stores; and for not recording losses from these operators, which now total more than $550m, in its own accounts.

"Although we've gotten a little off track, our long-term strategy is right on target," Mr Stephens said.

Andersen: a partnership under strain

The failure of Andersen Worldwide's 2,700 partners to back their board over the election of a new chief executive – for the second time in a month – exposes the problems of running a firm rather than a company.

As the members of the board fly back to New York today for a meeting to try to find a way out of the mess created by their democratic constitution, they must wish they could simply impose a solution from the top.

But partners – who in effect own the organisation – demand the kind of control that has led to the present impasse – compounded yesterday when Mr George Shaheen, head of Andersen Consulting and the board's nominee as chief executive, failed to win the election. And Andersen's US roots appear to have given it a particularly inflexible democratic framework.

The failure to back the board also reveals just how deep are the tribal cultures thet now separate the two firms under the Andersen umbrella – the "senior" accountancy arm, Arthur Andersen, founded in 1913, and the "junior" wing, Andersen Consulting, spun off in 1989.

Requiring two-thirds of all tha partners to give a "super-majority" to the new chief executive is onerous enough – but getting a two-thirds majority when 1,000 partners are from the consulting side and 1,700 from accounting appears nearly impossible.

This failure must signal that neither firm feels confident putting the future of the organisation in the hands of a partner from the other side of the Andersen family – a fact that must again raise the spectre of a complete divorce.

At a meeting in Paris earlier this year, the partners tried to thrash out the problem and had seemed to make progress. Some 97 per cent voted to stay under the Andersen umbrella and looked to the new chief executive to solve the structural problems threatening unity.

These essentially stem from Andersen Consulting's runaway growth and the determination of Arthur Andersen's partners to share some of the spoils.

The problem is that while Andersen Consulting is outstripping the "senior" arm in growth – and recently in absolute revenue terms as well – the organisation's constitution is skewed towards the old firm. The majority on the board, for example, is firmly in favour of Arthur Andersen.

The board may well insist that the succession is a sideshow – but the longer it drags on, the more likely it is to undermine Andersen'e image of quiet efficiency.

Jim Kelly


George Shaheen: failed to secure election as chief executive

AMERICAS NEWS DIGEST

Digital drops spin-off plan

Digital Equipment has cancelled the planned spin-off of its AltaVista internet software subsidiary and instead will combine the unit with other internet-related segments of its business.

The reversal reflects Digital's misgivings about losing control of a popular and high-profile product line. AltaVista is best known for its internet search service, which is one of the busiest sites on the world wide web. "By integrating AltaVista into Digital, we're able to more effectively put our corporate assets behind the goal of becoming the world's leading provider of internet business solutions," said Mr Robert Palmer, chairman and chief executive. "It is more appropriate to take advantage of the AltaVista brand and technology as part of Digital's overall product portfolio," he said.

Louise Kehoe, San Francisco

Liposome shares plunge

The US bio-tech sector was rocked yesterday by the third high-profile drug failure in two days. Shares in Liposome Company fell $15 1/16 to $9¼ after it said the phase 3 trial of its drug Ventus in acute respiratory distress syndrome showed no significant advantage.

On Tuesday, two other US bio-tech companies, Idec and Cambridge Neuroscience, reported that their drugs had also failed at phase 3. Phase 3 trials are the final and most expensive of clinical trials before a drug is submitted to regulators. Pharmaceuticals company statistics suggest that few drugs fail at the last hurdle.

Daniel Green, London

Cinram buys Sony operation

Canada's Cinram International, a leading independent maker of pre-recorded multimedia products, has agreed to buy the manufacturing assets of Sony's VHS video-cassette duplication operations in the UK. Terms of the deal were not disclosed.

With the acquisition, Cinram will supply most of the VHS video-cassette requirements for both Sony Music entertainment and Tri-Star Home Video in the UK. These services will be provided from Cinram's recently acquired UK subsidiary, which is soon to be expanded

The deal, made through Cinram'e UK unit, is the latest of several in Europe, where Cinram is quickly establishing video production facilities across the continent. The Canadian company last week purchased Polygram's multimedia manufacturing assets in the Netherlands for an estimated C$25m (US$18m). Cinram will distribute Polygram products in the Netherlands.

Scott Morrison, Vancouver

Power station venture formed

Four Quebec-based groups have set up a company, known as Corporation Hydro-Energi-Que, to spearhead construction and financing of small power stations in Latin America and the Caribbean.

CHEQ's shareholders, each with a 25 per cent stake, are Hydro-Quebec, the provincial government power utility; the Fonds de Solidarité des Travailleurs du Quebec, an investment fund controlled by one of Quebec's biggest trada union federations; Boralex, a private-sector group that operates eight hydro-electric stations; and Hydro-Mecanique Construction, an industrial engineering and construction group presently building a small generating station in Costa Rica. *Bernard Simon, Toronto*

COMPANIES AND FINANCE: THE AMERICAS

Netscape in intranet venture

By Louise Kehoe in San Francisco

Netscape Communications has formed a partnership with Concentric Network, a networking services company, to offer businesses and individuals the opportunity to create private office spaces on the internet.

The new service, to be launched in August, will enable a business to create a virtual intranet, or private network linking workers in different places, on the public internet, simply by opening an account with Netscape.

The service will provide users with all the advantages of a private intranet, enabling them to communicate, collaborate and store information online, without the expense and complexity of building, maintaining and managing an internal network.

Under the terms of the agreement with Concentric, Netscape will establish a new section of the Netscape web site called the Netscape Virtual Office by Concentric. This will be the gateway to private intranets with restricted access.

The security of Virtual Offices will be ensured by digital identification technology as well as by 128-bit encryption software.

Users will need an internet access account and Netscape's latest Communicator software. To create a Virtual Office, the user or office manager will simply sign up for the monthly service on the Netscape web site.

Users can specify lists of people who should be allowed access, and what types of activities are to be conducted.

"Virtual Office will give professionals, small businesses and project groups a private online presence that can be shared with co-workers or other users," said Mr Mike Homer, senior vice-president of marketing at Netscape.

"Our goal is to provide busy professionals and small businesses with affordable and easy access to everything they need to... communicate and conduct business over the internet," said Mr Homer.

Netscape has yet to establish pricing for the Virtual Office service, but Mr Homer said it was likely to be less than $100 a month to establish the office, plus a monthly charge for each user. "For businesses with up to about 100 users this will be a more economical alternative to building their own networks," he said.

Virtual Office applications will include the ability to publish and organise project documents on a web server, to participate in private discussion forums, to use e-mail, and to create and manage an external Internet site.

The companies also plan to add other business applications such as accounting, calendaring, conferencing, human resource handbooks, job postings, timesheet tracking and billing and sales automation applications.

Baton passes on in Brazil

Winning CVRD auction puts Steinbruch firmly in the ascendancy

BRAZILIAN PRIVATISATION

If anyone personifies the new era in Brazilian corporate life ushered in by privatisation, it is Mr Benjamin Steinbruch, the man who put together the consortium that last month bought a controlling stake in Companhia Vale do Rio Doce, the world's biggest iron ore company.

Three deals in four years, all connected to privatisations, have catapulted Mr Steinbruch from being one of the heirs of a family textiles company to a leading figure in Brazilian industry.

The first step came in 1993 when Vicunha, the Steinbruch family business, took a 9.3 per cent stake in Companhia Siderúrgica Nacional, Brazil's largest steelmaker, when it was privatised. Vicunha later raised its stake to 14.3 per cent and Mr Steinbruch took over the chairmanship.

Last year CSN bought 7.25 per cent of Light, the Rio de Janeiro electricity distributor, and Mr Steinbruch became chairman of the board.

Now CVRD, Brazil's biggest exporter and once the most attractive of state-owned companies, has come into his ambit. His consortium, Valepar, paid R$3.34bn (US$3.1bn) for the stake in the iron ore group, in Latin America's biggest privatisation.

It is perhaps symbolic that in winning the CVRD auction, Mr Steinbruch defeated a consortium spearheaded by Mr Antonio Ermírio de Moraes, chairman of Grupo Votorantim, Brazil's largest family company.

Mr Ermírio de Moraes is something of a father figure of Brazilian business. But he built his industrial empire in an era of protected domestic markets, state involvement and limited foreign competition. "It is almost like passing on the baton to a new generation," says a Brazilian banker.

CSN owns only about 10 per cent of the shares its latest purchase. However, as with CSN, CVRD's shareholder structure gives Mr Steinbruch more influence than this holding implies.

The other members of Valepar are all financial investors – four Brazilian pension funds, NationsBank of the US and an investment fund specially set up by Opportunity Asset Management in São Paulo – leaving CSN as the only industrial shareholder in CVRD.

Benjamin Steinbruch: insists that 'we are not looking to do anything abrupt or to break up CVRD' Folha Imagem

Mr Steinbruch's modest demeanour, combined with his one-time playboy image – ex-girlfriends include a former Miss Brazil – disguise an aggressive management style. Through cost-cutting and better financial management, CSN has been turned from a sluggish, state-owned behemoth into a profitable operation.

Brazilian businessmen expect him to take an equally ruthless approach to CVRD. The conventional wisdom is that his financial partners are likely to want a swift return on their investment, leading to prompt disposals of parts of CVRD, which has a broad range of industrial assets.

Likely candidates are the aluminium business, in which Alcoa, of the US, is believed to be interested, and the paper and pulp division, whose potential buyers include Aracruz Celulose and, ironically, Votorantim, which having failed to buy CVRD is now looking to expand its own paper business.

CSN's own cash requirements also point in the direction of quick measures to increase dividends from CVRD. The group arranged a $1.2bn loan from a syndicate led by NationsBank to finance its involvement in the auction, which analysts estimate has raised its annual interest bill by more than $230m.

CSN is considering refinancing this loan with a bond issue this year, according to Mr Richard Gross, head of global investment banking at NationsBank.

However, given the political sensitivity of the sale of CVRD, which prompted more than 130 legal challenges, any disposals will have to be handled very carefully. Not surprisingly, Mr Steinbruch and his partners are playing down the prospect. "We are not looking to do anything abrupt or to break up CVRD," Mr Steinbruch insists.

"We want to maximise long-term value and are not committed to any particular strategy," says Mr Persio Arida, a director of Opportunity Asset Management and now a board member of Valepar. "It would be wrong to deduce our strategy from our viewpoint as institutional investors."

The other parts of CVRD's new battle-plan have yet to be defined, and the complex cross-shareholdings that are a common feature of Brazilian industry make speculation difficult. However, analysts believe that Mr Steinbruch's likely tactics could have significant international implications for the industries in which it is involved.

Given that CVRD is one of four world price-setters for iron ore, the most obvious way of increasing profits would be to take a more aggressive approach than the government did in trying to negotiate higher prices.

For CSN, which is the only large Brazilian steelmaker to have its own iron ore mines, this tactic has the added attraction of reducing the competitiveness of its local rivals.

Moreover, given that CVRD has significant stakes in several other Brazilian steel companies, analysts forecast that in the long term, the privatisation could lead to a consolidation of the Brazilian flat steel industry, one of the most efficient in the world, into two loose groups – one led by CSN and the other by Usiminas, CSN's biggest competitor.

The government has already set up an inquiry into allegations that these two groups are operating a price-fixing cartel.

However, this is the one area where Mr Steinbruch could come into conflict with CVRD's other controlling shareholders. The Brazilian pension funds in Valepar also hold a large stake in Usiminas. Any move at CVRD which attacks the profitability of Usiminas could prompt their opposition.

CVRD represents new territory for Mr Steinbruch, who has little experience of the mining industry. With his new high-profile status at the top of the Brazilian corporate ladder, the pressure is now on him to prove that all the controversy surrounding the sale of CVRD was worth while.

Geoff Dyer

This is the fourth in a series on Brazilian privatisation. Previous articles appeared on April 29, May 14 and May 23

VSE speaks out on Bre-X affair

By Kenneth Gooding, Mining Correspondent

If Bre-X, the Canadian minerals group, had been listed on the Vancouver Stock Exchange, it would have created only a minor scandal, not one that shook the global mining industry, Mr John Boddie, vice president marketing of the exchange, said yesterday.

"My best estimate is that it would have been a $30m problem, not a $4bn problem," he said after a presentation by the VSE in London.

He insisted that the VSE's staff geologists would have been alerted early by a Bre-X technical report which indicated there was alluvial, or surface, gold in some samples collected by deep drilling at Bre-X's Busang project in Indonesia. "They would have stopped trading in the shares until that was cleared up."

For some reason, this information was not acted upon by either the Toronto or Alberta exchanges on which Bre-X was listed.

Mr Boddie pointed out that, as the VSE specialised in "junior", or small, natural resource companies, it had five geologists experienced in hard rock mining on its staff. Toronto and Alberta had no staff geologists but relied on consultants.

"We've learned our lessons from the problems we've had with juniors over the years," he added.

The VSE had a record year in 1996 when C$12bn (US$8.6bn) of shares were traded, making it the fourth-largest exchange in North America. Last year, companies raised C$2.1bn on the exchange, including C$1.2bn for mining ventures – 25 per cent of the total mining venture capital raised last year.

The situation had changed dramatically after the Bre-X scandal in April this year. "All junior mining stocks have been hurt. There has been a flight from juniors to blue chips, particularly in the resource sector."

The VSE had suffered a second blow because shares in technology companies had gone out of fashion and it also specialised in raising capital for junior technology companies.

Some finance was being raised, however, and this was encouraging. Mexico was the next "hot" area for mining companies at present, and the exchange had been working with the Mexican government to make exploration more attractive there.

Funds will be used to develop and expand group's network in eastern region of UK

Ionica seeks up to £144m in placing

By Alan Cane

Ionica, the Cambridge-based fixed radio telephone operator, is planning to raise between £125m and £144m ($238m) of new capital through a placing which will value the company at about £570m.

The pathfinder prospectus, published yesterday, suggests a price range for the shares of between 370p and 390p. The shares will be listed in London and in American Depositary Share (ADS) form on Nasdaq in the US.

The new shares, between 34m and 36m, will represent about 23 per cent of the company's enlarged issued share capital. An over-allotment option, amounting to a further 15 per cent of the issue size, will be available. None of the existing shareholders is selling shares in the offering, and the larger ones have agreed not to sell any for the next 12 months.

The funds will be used to develop and expand Ionica's network which covers about 45 per cent of homes in the eastern region of the UK. At the end of May, the company had 21,750 customers in the eastern and Midlands regions.

It had also agreed e £300m secured debt facility underwritten by Banque Paribas, SBC Warburg, Société Générale and Northern Telecom International Finance. Northern Telecom, the Canadian telecommunications manufacturer, is Ionica's partner in developing the company's fixed radio technology and marketing it on a non-exclusive basis outside the UK. Northern Telecom has sold the technology to some 20 countries. Ionica receives 5 per cent of the gross sales value.

Mr Nigel Playford, chief executive of Ionica, said the company's aim was to become the principal alternative consumer telephone service supplier in the UK.

Ionica buys capacity to transmit telephone calls in bulk from long-distance operators and then connects customers to their local exchange through radio signals.

Unlike wire-line or cable connection, Ionica needs only to invest in new infrastructure – including a small antenna – when new subscribers sign up. The company has raised about £440m in private equity.

SBC Warburg is sponsor and co-ordinator for the offer. The offer price will be announced on July 18.

Direct Line chief set for US

By George Graham, Banking Correspondent

Mr Peter Wood, who transformed the UK motor insurance industry by pioneering the direct sale of policies over the telephone, is to leave Direct Line, the company he founded 13 years ago.

Mr Wood has already handed over day-to-day responsibility for running Direct Line, the UK's largest motor insurer, to Mr Ian Chippendale, but will now relinquish his role as chief executive. He will also step down as director of Royal Bank of Scotland, Direct Line's owner.

Mr Wood will now concentrate on Direct Response, a new US direct insurance venture which he formed in partnsrship with Mr Jim Stone and Morgan Stanley, as well as on Privilege, which insures higher risk drivers such as sports car owners and those with motoring convictions.

Privilege is also a joint venture with RBS, though Mr Wood retains 51 per cent of ths voting rights. RBS has agreed to inject more money into the company to help its expansion.

Mr Wood has been spending one week a month in Boston, and now expects to spend about half his time on his US ventures, which also include a new home insurance venture called Homs Owners Corporation.

He will also remain vice chairman of Linea Directa Aseguradora, another joint venture with RBS in Spain.

Lord Yonnger, RBS's chairman, said Mr Wood was "an outstanding entrepreneur".

"There are few people who have ever achieved a step change in an industry. Peter Wood has transformed financial services," he said.

No payment will be made to Mr Wood for the remainder of his contract, which would have expired at the end of 1998, bnt RBS said that "in recognition of his contribution to Direct Line a payment has been made to his pension fund."

Wessex calls for 'fair' windfall tax

By Jane Martinson

Wessex Water pleaded for a "fair" windfall tax yesterday which recognised companies which had not made unwise diversification decisions.

The Bristol-based group made the plea as it reported annual pre-tax profits up 8 per cent to £145m ($239m) in the year to March 31 and an 16 per cent increase in its dividend.

The government is expected to outline the scope of the windfall tax in next week's Budget while Ofwat, the industry regulator, publishes its proposals for the next price review today.

Mr Nicholas Hood, Wessex chairman, said yesterday that a "fair" tax would be one that did not favour "companies which have not performed wsll...st ths expense of those which have made shrewd investments outside their core activity".

The group wants the government to base its calculations on initial sell-off prices so as not to penalise companies which have performed well since privatisation.

Unlike several other utilities, Wessex has never made a large provision to cover losses from its non-regulated businesses. The group said it was still looking for further non-regulated acquisitions after its failure to buy South West Water last year. "We have got a healthy balance sheet with quite a lot of capacity," said Mr Hood. The amount of capacity would depend on the level of windfall tax, he added.

Wessex has appointed Mr Harry Habert as managing director of UK Waste, its non-regulated joint venture with Waste Management International.

UK Waste lifted pre-tax profits 3 per cent to £25.1m despite a fall in waste paper prices, on sales of £150m. Wessex gained £12.6m.

Total sales rose 6 per cent to £254.3m (£240.7m) in the year while operating profits gained 11 per cent to £129.7m (£116.6m). Operating costs fell 3 per cent.

Net debt, including preference shares, stood at £253m at year-end, giving gearing of 37 per cent, after the group spent £185m on a capital restructuring.

A proposed final dividend of 12.3p makes a total of 18p, payable on earnings of 52.2p, up 9 per cent.

Wessex shares ended down 1p at 385½p.

Brendon Corr

Neville Bain: denied succumbing to shareholder pressure

Hogg Robinson plans sale of transport side

By Scheherazade Daneshkhu

Hogg Robinson yesterday said it was in talks to sell its troubled transport business after blaming the strength of sterling for a 48 per cent fall in ths division's full-year operating profits.

Ths business travel and financial services group also annonnced managemsnt changes and said it was considering a share buy-back. Mr Neville Bain, deputy chairman, said transport would be sold because of the lack of synergies with its remaining businesses. He denied succumbing to shareholder pressure.

Last year, UK Active Value Fund, which holds 3 per cent of the equity, urged a break-up of the group and a share buy-back.

The group plans to acquire travel management companies for its business travel division, which will account for two-thirds of group profits after the sale of transport, and would expand its financial services operations. Analysts valued the transport business at between £25m and £35m ($57.8m).

Ths news cheered ths shares, which rose 9p to 205½p – still below the level to which they tumbled after January's profits warning which wiped almost 30 per csnt off their market value.

Hogg said sterling's strength had had "a major adverse impact" on its northern European trailer business leading to ths fall in transport operating profits from £5.8m to £3m in the year to March 31.

The strong pound had also led to a "somewhat disappointing" performance in the last quarter from Bennett Travel, the Nordic business travel company, acquired in June 1995.

Group profits fell from £26.3m to £24.7m, mainly due to an exceptional £3.5m provision on the sale of Weys, the lossmaking Dutch logistics business, part of transport, in April.

Group operating profits rose 7 per cent from £27.8m to £29.6m. Turnover rose 12 per cent to £287m.

Profits in business travel rose 22 per cent to £20m (£16.4m) on turnover of £116m (£95.5m).

The financial services division reported a 12 per cent rise in profits to £9.2m on turnover up 10 per cent to £49.7m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Arcon Intl ♣	6 mths to Feb 28	0.933	(0.746)	0.036	(0.145L)	0.01	(0.05L)	-	-	-	-	-
DBS Management	Yr to Mar 31	111.5	(77.1)	6.24♠	(3.38♠)	48.2†	(31)	12	Aug 21	8.5	18	12
SEI Intl	Yr to Mar 31	84.6	(97.8)	5.54♥	(1.8♠)	9.28	(4.69)	3	Sept 2	3	4.5	4.5
Greene King	Yr to May 3	253.6	(165)	21.3♠	(24.7)	25.6†	(40.1)	11.8	Sept 4	11	16.35	15.5
Hogg Robinson	Yr to Mar 31	287	(257)	24.7♠	(26.3)	16.97†	(20.63)	6.1	Aug 6	5.45	9.8	8.75
John Lusty	Yr to Mar 31 ★	17.7	(15.7)	0.753	(0.552)	0.5	(0.28)	nil♦	-	0.1	-	0.1
Lambert Fenchurch	Yr to Mar 31	103.4	(99.6)	1.7♠	(14♥)	0.9L†	(15.6)	5.5	Oct 3	5.5	8.4	8.4
Lovell (YJ)	6 mths to Mar 31	107.7	(129.7)	1.54L	(7.76L♠)	5.4L	(21L)	nil	-	nil	-	nil
ML Laboratories	6 mths to Mar 31	5.61	(2.84)	2.9	(0.083)	1.69	(0.06)	-	-	-	-	-
Penna	Yr to Mar 31	16.7	(14.7)	0.648♠	(1.06)	0.6L†	(10.12)	1	Aug 12	1	2	2
Semic	Yr to Mar 31	4.8	(4.46)	0.438L♠	(0.232)	16.65L	(8.47)	1.75	Aug 28	1.75	3	3
Tams (John)	Yr to Mar 31	27.3	(28.9)	1.92	(0.219L♠)	4.76	(2.04L)	2.41	Aug 6	2.41	4.01	4.01
TGI	Yr to Mar 31	51.5	(44)	2.41	(2.21)	6.3	(8.8)	2.35	Aug 22	2.2	3.5	3.2
Throgmorton Pref	6 mths to Apr 30	0.861	(2.29)	0.662	(1.93)	0.84	(2.56)	nil	-	2.2	-	2.2
Vocalis	Yr to Mar 31	2	(0.535)	1.88L	(1.21L)	6.1L	(4.85L)	-	-	-	-	-
Wessex Water	Yr to Mar 31	254.3	(240.7)	145	(133.9)	52.2	(47.7)	12.3	Oct 1	10.2	18	15.2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Limit	Yr to Mar 31 ★	128.5	(112.3)	44.7	(10.4)	15.92	(3.72)	4.25‡	Sept 16	2.3	6‡	3.4
Murray Smaller	Yr to May 31 ★	551.5	(517.8)	4.33	(4.17)	7.8	(7.5)	4	Oct 2	3.45	5.8	5.05

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★ Comparatives restated. ♦Following technical problems relating to share capital, an interim dividend of 0.13p will be paid out of 1996 profits on October 1. ‡Special of 6p also proposed.

Limit to buy more stakes at Lloyd's

By Christopher Adams, Insurance Correspondent

Limit, the biggest corporate investor in Lloyd's, yesterday unveiled a huge rise in profits and said it would acquire stakes in more managing agents and investment companies at the insurance market.

Mr Jonathan Agnew, Limit's chairman and tipped by some to succeed Sir David Rowland as the next chairman of Lloyd's at the end of this year, said the group was considering several deals.

The investment trust has already played a big role in the rapid consolidation which has reshaped the capital structure at Lloyd's and created nascent insurance companies out of the agencies which manage syndicates.

It spent £40m ($66m) last year on buying Banksids and Janson Green, two leading managing agencies at Lloyd's and a string of further deals are likely.

"It's possible we could buy a controlling stake, but it's more likely to be a minority interest," said Mr Agnew.

Limit's results were the first to include profits from the trust's own underwriting activities at Lloyd's. The insurance market first admitted corporate capital in 1994 and syndicates publish their accounts three years in arrears.

The investment trust reported a jump in pre-tax profits from £13.0m to £70.3m for the year to March 31.

The figures were boosted by an underwriting profit for 1994 of £43.0m and a pre-tax contribution totalling £12.1m from Bankside and Janson Green, just over half of which goes to the agencies' employees.

Analysts are predicting pre-tax profits for the current financial year of about £65m, giving a prospective multiple of 8.4 to the shares, which edged 2½p higher to 134½p.

LEX COMMENT

Buses

The UK's bus groups must bs delighted at government movesto get people out of cars and on to buses. Bus companies were go-go stocks for years, despite steadily declining passenger numbers. The momentum was from consolidation in a sector few investors understood, so deals came cheap and costs were squeezed out with relish. But now that three quarters of the bus market is in five pairs of hands, the lack of turnover growth has become a valid concern. In theory Labour's proposals are just the ticket. A white paper will look at new charges for motorists and priority traffic routes for buses. Bus operators would form partnerships with local authorities, which would provide improved infrastructure in exchange for increased investment in bus fleets and services. This would raise barriers to entry, push out smaller, poorer operators, and increase passenger volumes. Since the marginal bus passenger can be almost pure profit, investors are seeing pound signs.

But Labour may want a quid pro quo. Life is already good for bus operators, which achieve returns on invested capital of well over 20 per cent while passengers have been rewarded with fare increases well above inflation. So in exchange for proposed improvements, bus companies might have to tender for franchises; and they might even face the prospect of a regulator, presumably Ofbus. Certainly, their returns on capital will suffer considerable scrutiny before the white paper is published early next year.

NEWS DIGEST

US ruling hits T&N shares

Shares in T&N, the engineering company, slid 16½p to 143p yesterday after a US court ruling that appeared to create uncertainty over compensation payments to victims of asbestos-related diseases. T&N insisted the ruling was already allowed for in existing provisions and insurance to settle its asbestos liabilities, but investors reasoned the company might eventually be exposed to higher-than-expected payments.

In yesterday's judgment, the US Supreme Court ruled against an appeal by T&N and other former asbestos producers against an earlier court verdict changing an agreed procedure – the Georgine settlement – for channelling payments to US sufferers of asbestosis and related diseases.

From now on, victims will have to fight legal cases on a one-off basis, as opposed to settling payments as part of "class actions" involving a network of claimants.

Theoretically, this could open the company to bigger future payments, even though one adviser to T&N said the judgment could just as easily help the company by making future legal procedures more complex and slowing down the rate at which payments were made.

Peter Marsh

Rolls shares limit exceeded

The number of foreign shareholdings in Rolls-Royce has exceeded the 29.5 per cent maximum allowed by 10.6m shares – or 0.72 percentage points – the company revealed yesterday.

Rolls-Royce said it "regretted" having to notify the registrars that the excess shares would have to be transferred by July 16. In May, the company said it would be asking the Labour government to change the articles of association set up by the Conservative government in 1987 at the company's flotation which limits its foreign ownership.

In addition, British Aerospace, which is also bound to the same limits on foreign ownership, announced yesterday that its foreign shareholdings stood at 29.03 per cent.

Investors attack YTT bid

Institutional investors in Yorkshire-Tyne Tees Television have said they do not believe that the management of the Leeds-based ITV company has negotiated the best deal for shareholders from Granada Group. The comments came after Granada published its formal, recommended, and final, offer for YTT of £11.75 per ordinary share and 975p per warrant, that values it at £711m ($1.17bn).

Shareholders said that they would be closely watching the reaction to the offer from Lord Hollick, chief executive of United News & Media and holder of nearly 15 per cent of YTT.

Mr Gerry Robinson, chairman of Granada, said of the "final" offer: "This is it. This is where we stand." He said if shareholders did not accept the recommended offer, Granada would walk away from the deal. If Granada were to pull out, a fall in the YTT share price would be likely.

Gehe sells Lloyds offshoot

Pet care is booming, according to Mercury Asset Management which yesterday funded a £52m ($85.8m) management buy-out of a veterinary drugs business from Lloyds Chemists, now owned by Gehe of Germany.

Mr Trevor Bayley of MAM's private equity division said the market for veterinary products had achieved 13 per cent annual growth in the last four years. The business specialises in the wholesale distribution of pharmaceuticals, instruments and other products to veterinary practices.

The MBO is led by an 11-strong team investing £100,000-£300,000 for e 23 per cent stake. MAM is providing a further £16.8m, and will hold the balance of what were three separate business.

The MBO comes just five months after Gehe won its protracted £684m bid for Lloyds Chemists. It is thought it will also seek to sell the Holland & Barrett healthfood chain.

Peggy Hollinger

Price cut for Randgold arm

Randgold Resources, the international gold exploration and mining subsidiary of Randgold of South Africa, has had to reduce substantially the price of the shares it is offering in connection with a capital raising and London stock exchange listing.

Brokers said yesterday that the shares would be priced at $16.50 each, well below the bottom of the $18 to $23 range indicated last week. "Market conditions are very, very tough and they did well to get the offer away," said one broker.

A comparatively low gold price and the Bre-X scandal have had a severe impact on the market for mining equities, but the Resources' management, headed by Mr Peter Flack, executive chairman, decided to push ahead despite these conditions. When the Resources listing was first mooted in March, Mr Flack said he hoped the shares would be priced between $25 and $30 each.

Peter Marsh reports on a breakthrough in the compressor industry

Revolution in the air

When jumbo jets of the Scandinavian Airlines System airline need their tyres blown up after touching down at Copenhagen airport, the air comes from a novel compressor claimed to represent the biggest advance in this technology for 30 years.

The compressor is said to use a quarter less energy than comparable machines. It has been designed by CompAir, part of the UK engineering group Siebe and number three in the worldwide compressor industry after Atlas Copco of Sweden and Ingersoll Rand of the US.

Siebe claims that use of its new Cyclon compressors could save tens of millions of pounds a year in electricity costs. If overnight all the compressors in the UK were converted to the new technology, Siebe reckons, Britain could afford to switch off the Sizewell B nuclear power station.

The Cyclon has been devised by a UK engineering team led by John Sinker, engineering director at CompAir's Broomwade division, based in High Wycombe, Buckinghamshire.

Jerry Sorrow, CompAir's president, says that over the next few years the ideas behind Cyclon could form part of two-thirds of the compressors the company sells around the world under various brand names. "The system is unique – it has the potential to change the game plan of the industry," he says.

Compressors are the unsung workhorses of industry. With \$5bn (£3bn) worth of them produced each year, they are found in most factories, from potteries to car plants, which require compressed air for powering pneumatic equipment. They also play a role in jobs as diverse as paint spraying and printing, while road construction would seize up without compressors for powering drills.

But most compressors are profligate users of energy. A typical system costing \$22,000 will cost the same amount in electricity in just a year.

In nearly all plants the systems are continuously being adjusted according to varying requirements. While a typical compressor's efficiency – the proportion of electric power converted into usable energy – can be as high as 90 per cent at peak load, the figure can drop to as little as 40 per cent when the system is being throttled up and down.

The job of "squashing" air molecules together to provide the compressed air is usual done by a pair of rotors which whirl at up to 5,000 revs/min, under the control of an induction motor.

Lydia van der Meer

Changing the game plan: John Sinker, (left) and Jerry Sorrow with the Cyclon

This is where CompAir, in a five-year development programme, believes it has made a big technical leap. It has used digital techniques to even out the supply of energy to the compressor motor, which is where electrical power is normally wasted as speed is continually adjusted. This enables the motor speed to alter gradually, rather than in a series of stops and starts.

The breakthrough would not have been possible without a partnership between CompAir and Switched Reluctance Drives, a specialised Yorkshire-based motor company which is part of Emerson Electric of the US, the world's biggest maker of electric motors.

CompAir has licensed from SRD some of the technological know-how which enables energy to be pulsed under close control into the coils of a motor to enable the device to use electricity at optimal levels.

Another benefit of the project is that the Cyclon system has been engineered to take up roughly half the space of a conventional system while its better system of energy control should also make it quieter for most applications.

The Cyclon will probably be priced between 30 per cent and 40 per cent higher than rival systems to reflect its lower running costs. It has so far been tried out mainly in Belgium and Scandinavia. Companies testing prototypes of the system include ITT, the US vehicle components group, which has a Cyclon in one of its large European brake systems plans; Tubes Souples, the Belgian extruder of aluminium for use in toothpaste tubes; Danish Crown, the bacon producer; and German diesel engine producer MAN.

CompAir believes believes it will sell 200 of the systems in the first year, and that longer term the technology could enable it to close the gap with its two bigger compressor rivals, Atlas and Ingersoll – both of which are estimated to account for around one-fifth of worldwide compressor sales, making them each almost twice the size of the UK company.

In a field of their own

From washing machines to air conditioning, from conveyor belts to centrifuges, technology created by a small UK engineering consultancy is driving the development of machines around the world.

Switched Reluctance Drives, based in Harrogate, Yorkshire, is a leader in variable speed drives that use electronic techniques to control motor rotation and minimise energy use. SRD, which since 1994 has been part of Emerson Electric, a leading US maker of electric motors, has revenues of about \$3m (£1.8m) a year, mainly in licensing income from about 20 businesses around the world.

These companies use SRD's technology for a range of machines already in production with annual sales of between \$50m and \$100m, according to Roy Blake, SRD's managing director. The 20 companies with SRD licences include Maytag, third largest manufacturer of white goods in the US, which uses the technology in a new family of energy-efficient washing machines.

Another user is Normalair-Garrett, an engineering company owned by GKN of the UK and the US's AlliedSignal, which has applied SRD's ideas in low-pollution air conditioning systems to be used in a new generation of German high-speed trains.

BJD 100, a UK management buy-out from British Jeffrey Diamond, formerly part of Dresser industries of the US, is selling industrial conveyor systems based on SRD motors. Beckman Instruments, a US maker of laboratory instruments, has seized on the ideas to turn out a new series of electrically driven centrifuges.

The latest machines based on SRD's concepts to go on sale are a novel series of compressors developed by CompAir, a division of Siebe, the UK engineering company.

SRD, with a staff of 33, was set up in 1980 by Peter Lawrenson, a motor expert formerly at Leeds University, who has since retired. A particular supporter of the company's ideas is Amory Lovins, the US environment guru, who believes that some of the concepts could be applied to new versions of low-pollution, electrically powered cars.

The main claim of SRD is that its switched reluctance motors can outperform standard induction motors in terms of efficiency, speed, torque, reliability and robustness.

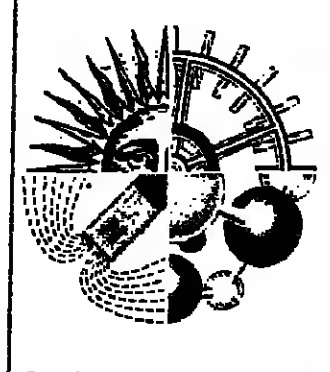
Like standard induction motors, SRD's systems have a rotor (rotating part) and a stator (stationary part). It is the interrelationship of the magnetic fields produced by these two components that produce motion. Unlike the pattern in conventional motors, the forces produced by the fields can be made continuous, rather than being continually switched on and off. This makes the motor capable of generating large amounts of power and pushes up the energy efficiency.

SRD's motors would not be practicable but for cheap, high-power semiconductors made mainly by Japanese companies such as Mitsubishi and Toshiba.

Companies working with SRD need to think long-term, however. CompAir, for instance, after having worked on the concepts for five years, is only now starting to sell machines based on the technology.

PM

Worth Watching · Andrew Baxter



Antibiotic with line of least resistance

Antibiotics occur naturally in plants, animals and fungi – from which the therapeutic variety are derived – but in humans only one such substance has been found, in the urogenital tract and the lungs.

Now Jens Schröder and colleagues from the University of Kiel's dermatology department have discovered that human skin is protected from infection by an antibiotic produced when it comes into contact with micro-organisms, according to today's *Nature*.

The antibiotic, human beta-defensin-2, is a peptide which is made when and where it is needed and seems to kill the attacking micro-organisms by creating pores in their cell membranes. It is very like the protective antibiotic made by the superficial cells of the tongues of cattle, says the Kiel team.

The finding could have therapeutic implications, as these naturally occurring antibiotic peptides may avoid the problems of acquired resistance. They also appear to be particularly effective against infection by the e-coli bacteria, a common cause of serious illness, and the yeast *Candida Albicans*.

University of Kiel, Germany: tel 4315971536, fax 4315971611.

Iron bond beats cobalt for cutting

For 50 years, circular saws and wire beads used in the stone-cutting and construction industries have relied heavily on cobalt to act as a bonding agent for the particles of diamond abrasive that do the cutting.

But cobalt has been compromised, most seriously by its listing as a suspected carcinogen, and also by its price volatility. An environmentally friendly, less vulnerably priced and equally effective – or even better – alternative has been found by Boart Longyear, part of South Africa's Anglo American Industrial Corporation.

Its Irish-based technical centre has found a way to use iron as the bonding agent. Iron-bonded products including saw blades and beads are already being manufactured.

Boart Longyear Technical Centre, Ireland: tel 61556688, fax 61331277

Detecting a pattern of irregularities

An unusual new technique for pattern recognition and small object detection has been developed at the Georgia Tech Research Institute with potential applications in radiology and other medical areas, manufacturing quality control and elsewhere.

The technique has already been used to help radiologists analyse digital mammograms. The system searches a database of raw information to match patterns and detect objects. The radiologist's archive of past cases becomes a data classifier for processing new mammograms, but the technique is not intended to replace radiologists.

Georgia Tech, US: tel 4048943444, fax 4048946983

Lightweight carbon fibre at full gallop

Tendon injuries are one of the big problems for the racing industry – at full gallop a horse's front flexor tendons have to withstand about three tonnes of force each time a hoof lands.

Andrew Daly, a postgraduate student at London's Royal College of Art, has designed an ultra-lightweight carbon fibre boot which prevents the fetlock joint extending to the point where there could be a risk of injury.

It has been developed over the past six years in conjunction with tendon specialist John Hyde.

RCA (Aubrey Greene), UK: tel (0)171 590 4127 or e-mail a.greene@rca.ac.uk

INTERNATIONAL CAPITAL MARKETS

Europe ignores 'disappointing' data

GOVERNMENT BONDS

By Michael Lindemann in London and John Labate in New York

European bond markets continued their drive upwards yesterday, in spite of what some analysts said were "disappointing" economic indicators.

US Treasuries, meanwhile, were more circumspect and edged downwards, still feeling the aftermath of the Japanese scare earlier tbie week.

ITALIAN BTPs once again exemplified the European eupboria. Tbe September BTP future settled at 134.58, up 0.58 on the day, while the yield spread over bunds tightened to 112 basis points, its lowest-ever level and 10 basis points lower than its close on Tuesday.

Convergence trades still appeared to account for much of the strong demand, but Ms Ros Lifton, bond strategist at HSBC, said Italy also looked good on fundamentals, with weak domestic demand and low growth.

"If you were looking at the economy and forgetting the Emu dimension, you would be quite happy buying BTPs," Ms Lifton said.

That sentiment was underscored by the April unemployment rate, which came in at 12.5 per cent, slightly higher than the 12.3 per cent forecast.

GERMAN BUNDS were strong in spite of higher than expected June inflation figures. Ms Lifton said demand might be driven by rumours that Germany would not issue a 10-year bond in the second half of 1997, reducing the number of bunds deliverable for the December futures contract.

Tbe September bund future settled at 101.71, close to the day's high of 101.76.

Demand for UK GILTS was also strong – surprisingly so, given that gilts had breached the 114 barrier, analysts said. Some said a large buyer, possibly a US fund, had come into the market at lunchtime in London.

However, Mr Andrew Roberts, gilts analyst at UBS, said there was likely to be some profit-taking ahead of the July 2 budget. The September gilt future settled at 113$\frac{15}{16}$, up $\frac{15}{32}$.

US TREASURIES edged lower in morning trading on normal volumes. By noon the benchmark 30-year bond had fallen $\frac{1}{32}$ to 98$\frac{15}{16}$, to yield 6.702 per cent. The 10-year bond was $\frac{1}{32}$ lower at 101$\frac{15}{16}$, yielding 6.412 per cent, while the two-year note was unchanged at 99$\frac{15}{16}$, yielding 6.017 per cent.

In a surprise to analysts, durable goods orders for May declined by 0.6 per cent, caused largely by changes in the aircraft and automotive sectors. The fall followed a 1.8 per cent rise in new orders in April.

The effect of the news was undramatic in the market. "If anything, it's kept us from trading lower," said Mr Peter Hirsch, head of the government desk at Salomon Brothers.

Traders were also gearing up for the afternoon'a release of five-year notes. Tuesday's new issue of two-year notes came in at a yield of 6.027 per cent.

Vietnamese debt ratings downgraded

By Jeremy Grant in Ho Chi Minh City

Thomson BankWatch, the New York-based bank rating agency, has downgraded its sovereign risk rating for Vietnam and nine of its biggest banks.

The move reflects concern over the country's willingness to meet financial commitments in the face of mounting short-term trade debt.

A string of recent loan scandals and trade-releted defaults have added to concern over Vietnam's fragile foreign exchange reserves and its troubled banking system, which is saddled with large non-performing loans.

Among the banks listed were three state-owned banks – Vietcombank, the biggest, and Eximbank and Maritime Bank, previously regarded by bankers as among the healthiest semi-private banks.

The agency said it had downgraded Vietnam's sovereign rating from B minus to C, prompted in part by "dwindling foreign exchange reserves" and reports that Hanoi was giving precedence to domestic banking laws over international banking conventions.

Earlier this month, Vietcombank refused to pay e number of foreign banks money owed under letters of credit, saying local banking law preventing it from doing so until it had first been paid by its clients. International banking conventions sey this does not affect bank-to-bank obligations.

"Our feeling is that enough is enough. We've been seeing piling up some disturbing news about banks not paying for reasons that have nothing to do with normal practice," said Mr Philippe Delhaise, president of Thomson BankWatch Asia in Hong Kong.

Hanoi has not commented on the country's banking problems, adding to nervousness among foreign bankers. That is largely due to an obsession with secrecy that saw a recent clampdown by the Communist party on local reporting of banking.

However, e senior Vietcombank official broke official silence on Tuesday, saying Vietnam's ability to bonour its financial commitments was beyond reproach.

"We can say that the payment ability of the state has been improved and will be improved," the official told the Reuters news agency.

Figures released yesterday showed that the country'e trade deficit had narrowed sharply in the first five months of 1997 to $1.2bn, from $1.9bn in the same period a year ago.

Some bankere were encouraged, 6aying the decline ehould ease ehort-term pressure on the Vietnam's foreign exchange position. They added thet increased liquidity in the fledgling treasury bill market was another positive sign.

However, more than $1bn in letter of credit payments – some deferred – are falling due this year after a surge in short-term trade financing from abroad last year.

Thomson BankWatch put Vietnam's foreign exchange reserves et $1.6bn, equivalent to only seven weeks of imports.

Fannie Mae launches A$1bn global issue

INTERNATIONAL BONDS

By Edward Luce and Andrew Taylor

Fannie Mae, the US mortgage house, grabbed the limelight in e fairly busy market yesterday with the largest Australian dollar global bond ever launched.

The A$1bn 10-year offering, whicb will be priced to yield a spread of 10 basis points over the Australian government bond yield curve, will be priced this morning. But DMG, SBC Warburg and Merrill Lynch confirmed bealthy order books from Australian dollar funds worldwide.

"Aussie dollar funds have very little liquid paper to buy epart from government bonds and semi-government bonds, whicb are extremely tight anyway," said ooe syndicate official.

Anotber, perhaps a little too entbusiesticelly, described the Aussie global offering as the beginning of "a new asset class". The proceeds – as witb Fannle Mae's debut New Zealand dollar global a few weeks ago – will be ewapped back into US dollars at a sub-Libor rate.

GENERAL MOTORS followed recent direct investments in China with its first euro-Asian issue. The bond, priced to yield 40 basis points over five-year Treasuries, was considered fairly tight by some investors et two basis points tighter than GM's five-year globel launched in January. Officials, however, pointed out tbat it wes popular witb some retail investors wbo preferred the "bearer" form (not available on e global) and the spread pick-up over other A-rated five-year deals in the market. About 20 per cent of the paper went to Asian accounts.

The WORLD BANK had a flood of small issues yesterday including a C$100m five-year offering and $250m of two-year paper aimed at Europe's retail market. Officials said the deals were timed to coincide with forthcoming redemptions of World Bank bonds, inclnding a C$2bn issue maturing on July 7 and a $1.5bn bond expiring on July 16.

An official at DMG, sole lead manager of the two-year dollar offer, said investors were looking for short-dated paper after the recent deluge at the longer and of the curve. Retail investors were also excited ebout World Bank paper in bearer form.

The World Bank also tapped the Australian dollar market with a A$100m five-year bond led by Hambros Bank. The coupon of 6.75 per cent was higher than the usual 6.5 per cent for this maturity from the triple A borrower. The premium reflected e call option allowing the bank to redeem the bond et par after two years.

In line with other Australian dollar bonds aimed at the retail market, the issue had no fixed re-offer price.

L-BANK, the state development bank for Baden-Württemburg raised $250m from e three-year bond led by SBC Warburg. The re-offer price, fixed et the same level as the equlvalent three-year US Treasury, beld at that rate in subsequent trading.

Tbe issue was aimed mainly at the Swiss retail market, where banks have recently reported strong liquidity. Officials said demand was particularly strong for short-dated dollar issues.

BANK OF AUSTRALIA also raised $250m from a five-year bond led by Morgan Stenley Internetional. Demand mainly came from banks and bank-managed funds, with the re-offer price of 8 basis points above three-month Libor widening only slightly in later trading.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
World Bank	250	6.0	99.855R	Jul 1999	0.125R	-4(6%Jun99)	Deutsche Morgan G'fell
Bank of Western Aust‡	250	(a)	99.923R	Jul 2002	0.200R	-	Morgan Stanley Intl
L-Bank	250	6.25	99.97R	Jul 2000	0.188R	-	SBC Warburg
PSK(s)	250	6.25	99.903R	Dec 2000	0.200R	+3(6%%May00)	Nomura/UBS
BE Global Ltd(b)	172.25	3.875	100.00	Jul 2001	2.25	-	Yamaichi Intl (Europe)
Bacob Overseas Bank	150	6.50	99.95R	Jul 2000	0.225R	+25	Yamaichi Intl/Bacob Bk
Abbey National Treas	100(c)	6.25	99.571R	Jun 2000	0.188R	+15(6%%-00)	Salomon Bros/SBC
Banque Worms(d)‡	70	(d1)	100.00	Jun 2007	undisc	-	Chase Manhattan
Sears Roebuck Accept(s)	500	7.00#	99.637R	Jun 2007	0.450R	+8.25	Goldman Sachs
Commerzbank AG(j)	250	4.625	97.012R	Jul 1999	0.125R	+18	Commerz/PaineWebber
Rabobank Nederland(e)	150(e1)	6.0	99.12R	Mar 2001	0.200R	-	Rabobank/UBS
General Motors Accept Co	*500*	*6.75*	*99.69R*	*Jul 2002*	*0.300R*	*+40*	*HSBC/Paribas*
D-MARKS							
Sachsen Landesbank	500(f)	4.25	98.05R	Jun 2002	0.090R	+18	Bayer/BankGes/Com/CDC
Christiania Bank‡	300	(g)	99.942	Jul 2002	17.5	-	Lehman Bros Bankhaus
Land Sachsen Anhalt	1bn	5.75	99.466R	Jul 2007	0.325R	+12(6%Jul07)	Com/Dres/HSB/Soc/Wes
DG Hypothekenbank	600(h)	4.0	99.06R	Apr 2001	22.345R	-	Bayer/Comm/Deut/DG
SWISS FRANCS							
EIB	300	3.5	101.50	Jul 2007	2.25	-	CSFB
FRENCH FRANCS							
EIB(s)	3bn	5.75	99.438R	Jul 2009	0.350R	+6(i)	CDC Marche/SocGen
ITALIAN LIRE							
Mexico	500bn	8.375	100.00R	Jul 2004	0.400R	-	Chase/Deutsche MG
CANADIAN DOLLARS							
Toronto Dominion Bank	100	5.625	99.52R	Dec 2002	0.275R	+36	Toronto Dominion Bank
World Bank(s)	100	5.375	99.39R	Dec 2002	0.250R	+12(7%Sep01)	Deutsche MG/Hambros
AUSTRALIAN DOLLARS							
World Bank(j)	100	6.75	101.705	Jul 2002	1.875	-	Hambros Bank
SOUTH AFRICAN RAND							
Rabobank Nederland	2bn	zero	2.95R	Jul 2027	0.100R	-	Rabobank/Toronto Dom

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) 3mth Libor +8.25bp. b) Warrant exercise period 31/7/97-10/7/01. Exercise premium of 2.5% possible downward revision on 4/12/98 with 80% floor. c) Increased from $400m originally launched. d) Callable on June 2000, and then from June 2002. d1) 3mth Libor +70bp for yrs 1–5, then steps up to 3mth Libor +145bp. e) 116 days accrued interest. e1) Reopening from $350m originally launched 11/3/97. f) Increased from DM1bn deal originally launched 6/3/97. g) 3mth Libor + 5bp. h) Increased from DM1bn originally launched 5/2/97. j) Callable at par on 15/7/99 at 30 days notice (15/6/99). i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.5737	+0.240	7.02	7.07	7.80
Austria		5.750	04/07	99.2900	+0.050	5.84	5.90	5.76
Belgium		6.250	03/07	103.5100	+0.450	5.77	5.81	5.85
Canada *		7.250	06/07	108.2500	+0.060	6.13	6.24	6.51
Denmark		7.000	06/07	104.1800	+0.170	6.43	6.36	6.32
France	BTAN	4.750	03/02	100.7059	+0.040	4.58	4.63	4.69
	OAT	5.500	04/07	99.3400	+0.070	5.59	5.60	5.64
Germany Bund		6.000	07/07	102.3300	+0.010	5.69	5.73	5.77
Ireland		8.000	08/06	110.0000	[illegible]	6.51	6.54	6.58
Italy		8.750	02/07	100.4000	+0.740	6.69†	6.86	7.12
Japan	No 145	5.500	03/02	116.3268	-0.650	1.76	1.83	1.79
	No 182	3.000	09/05	103.5552	-1.000	2.48	2.38	2.52
Netherlands		5.750	02/07	101.3800	+0.060	5.56	5.60	5.68
Portugal		8.500	02/06	121.2000	-	6.25	6.25	6.40
Spain		7.350	03/07	107.2500	+0.100	6.31	6.34	6.56
Sweden		8.000	08/07	109.6217	+0.230	6.66	6.81	6.95
UK Gilts		7.000	06/02	99-25	+7/32	7.05	7.03	6.91
		7.250	12/07	101-06	+11/32	7.09	7.13	7.05
		9.000	10/08	114-09	+13/32	7.14	7.19	7.11
US Treasury *		8.625	05/07	101-15	-3/32	6.42	6.43	6.68
		8.625	02/27	98-29	-8/32	6.71	6.72	6.89
ECU (French Govt)		7.000	04/06	107.6800	+0.110	5.86	5.81	5.92

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.02
Prime rate	8½	Two month	-	Three year	6.17
Broker loan rate	7¼	Three month	5.12	Five year	6.32
Fed.funds	5½	Six month	5.26	10-year	6.43
Fed.funds at intervention	-	One year	5.63	30-year	6.71

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	129.00	129.14	+0.28	129.24	128.94	107,953	204,870
Dec	97.62	97.76	+0.28	97.82	97.62	154	2,095
Mar	97.02	97.18	+0.28	97.02	97.02	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
126	3.15	3.20	3.32	0.01	0.07	0.20
127	2.15	2.30	2.46	0.01	0.17	0.34
128	1.15	1.46	1.63	0.01	0.33	0.56
129	0.22	0.80	1.07	0.08	0.65	0.93
130	0.01	0.35	0.59	0.87	-	-

Est. vol. total, Calls 16,766 Puts 11,751. Previous day's open int., Calls 139,075 Puts 180,226

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.60	101.71	+0.07	101.76	101.54	186894	254475
Dec	100.66	100.77	+0.06	100.80	100.60	3832	10219

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
10150	0.68	0.95	0.72	1.02	0.47	0.74	1.45	1.76
10200	0.43	0.68	0.54	0.82	0.72	0.97	1.77	2.05
10250	0.24	0.47	0.39	0.65	1.03	1.26	2.12	2.36

Est. vol. total, Calls 16414 Puts 22555. Previous day's open int., Calls 116822 Puts 154776

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	133.93	134.58	+0.58	134.74	133.85	69945	96480
Dec	-	107.03	+0.46	-	-	0	270

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
8000		27.03		0
8050		26.53		0
8100		26.03		0

Est. vol. total, Calls 1893 Puts 5946. Previous day's open int., Calls 63920 Puts 77403

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.85	116.96	+0.11	117.03	116.70	73,485	93,874
Dec	-	100.25	-	-	-	8	7

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114-00	114-11	+0-13	114-11	114-00	46	1002
Sep	113-15	113-30	+0-13	114-04	113-14	82902	169822

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
113	1-22	1-47	1-53	2-18	0-26	0-51	1-21	1-50
114	0-46	1-09	1-21	1-51	0-52	1-13	1-53	2-16
115	0-23	0-44	0-60	1-24	1-27	1-48	2-28	2-56

Est. vol. total, Calls 5587 Puts 668. Previous day's open int., Calls 28236 Puts 16887

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	95.98	95.76	+0.26	96.10	95.98	551	4,425

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	112-08	111-27	-	112-07	111-23	253,221	428,111
Dec	111-25	111-15	-0-22	111-25	111-10	291	25,228
Mar	-	111-15	-	-	-	50	2,099

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	123.06	-	-	123.32	123.01	2631	n/a
Dec	122.56	-	-	122.62	122.56	10	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Jun 25	Day's change %	Tue Jun 24	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	119.88	0.14	119.71	2.28	5.38
2 5-15 years (20)	152.29	0.32	151.81	2.29	5.98
3 Over 15 years (6)	179.92	0.45	179.12	5.70	5.02
4 Irredeemables (5)	208.08	0.64	206.77	2.20	7.10
5 All stocks (51)	146.79	0.28	146.38	2.92	5.68
Index-linked					
6 Up to 5 years (2)	204.85	0.05	204.75	1.42	3.08
7 Over 5 years (10)	197.79	0.17	197.46	1.76	2.86
8 All stocks (12)	197.46	0.15	197.18	1.71	2.86

UK Indices

	Low coupon yield Jun 25	Jun 24	Yr. ago	Medium coupon yield Jun 25	Jun 24	Yr. ago	High coupon yield Jun 25	Jun 24	Yr. ago
5 yrs	7.06	7.12	7.39	7.12	7.17	7.44	7.17	7.22	7.52
15 yrs	7.08	7.13	8.21	7.15	7.19	8.22	7.18	7.23	8.29
20 yrs	7.09	7.14	8.29	7.15	7.20	8.29	7.16	7.23	8.34
Irred.†	7.26	7.30	8.32						

	Inflation 5% Jun 25	Jun 24	Yr. ago	Inflation 10% Jun 25	Jun 24	Yr. ago
Up to 5 yrs	3.60	3.61	2.72	2.93	2.93	[illegible]
Over 5 yrs	3.63	3.64	3.63	3.42	3.43	3.61

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 25	Jun 24	Jun 23	Jun 20	Jun 19	Yr ago	High*	Low*
Govt. Secs. (UK)	96.49	96.26	96.03	96.29	96.04	92.5	97.51	93.31
Fixed Interest	123.77	123.36	123.32	123.02	123.15	111.95	123.77	115.32

Gilt Edged Activity Indices

	Jun 24	Jun 23	Jun 20	Jun 19	Jun 18
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until further notice.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 25

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99¼	99½	-⅛	6.65
ABN Amro Bank 7¼ 00	1000	101⅜	101⅞	-⅛	7.08
African Dev Bk 7¾ 23	500	100¾	101⅜	-⅜	7.31
Alberta Province 7¾ 98	1000	101¾	102		6.20
Argentina 11¾ 17	2000	111½	112¼	-⅛	10.28
Asian Dev Bank 6¼ 02	750	97⅝	97⅞	-⅛	6.73
Spain 7¼ 03	4000	[illegible]			
Volkswagen Intl Fin 7 03	1000	[illegible]			
World Bank 5⅞ 03	3000	[illegible]			
World Bank 6⅜ 02	3000	[illegible]			
World Bank 7⅛ 02	6000	[illegible]			

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Vietnamese debt ratings downgraded

CURRENCIES AND MONEY

Surprisingly upbeat tankan lifts yen

MARKETS REPORT

By Simon Kuper

The yen rose yesterday after the Bank of Japan's tankan survey of business sentiment showed a stronger reading than expected. The diffusion index for major manufacturers was +7, where the market had forecast 0. The reading raised prospects that the Bank of Japan might raise interest rates sooner than expected.

The tankan initially sent the yen soaring Y1.5 against the dollar to Y113.37. But it fell back later, after failing to break resistance around Y113.45. Currency strategists said many Japanese institutions bought the dollar on dips, perhaps on request from Japan's government.

The dollar was also helped by Bank of Japan warnings that the tankan was weaker than appeared at first glance. Among other things, the survey showed poor sentiment among non-manufacturers and small companies.

The yen closed Y1 higher in London at Y113.9 to the dollar. Strong US existing home sales figures and weak durable goods orders cancelled each other out and had little impact on the market. Traders still expect the Federal Reserve's Open Market committee to leave rates unchanged after its next meeting ends on July 2.

The lira rose L1.2 against the D-Mark to hit a five-month high at L976.0. The currency's recent gains have been driven by the surge in Italian bonds. Their yields have fallen to a record low of just 112 basis points over German bunds, thanks to the growing belief that Italy will join the start of European monetary union, and to low inflation – which is below even German levels.

The market continued its vigil for the Bank of Italy to cut its discount rate from 6.75 per cent. Many strategists noted that the minimum rate at the bank's lira repo operations fell to an historic low of 6.26 per cent yesterday.

Mr Nick Parsons, currency strategist at Paribas Capital Markets in London, said that if the lira broke through L975 to the D-Mark, it could quickly rise as high as L972.

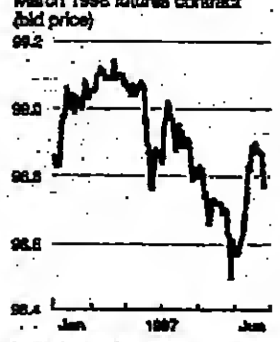
Sterling fell on profit taking after the UK's global trade deficit for April emerged larger than expected. Exports rose, but the faster growth in imports was taken as a new sign that sterling's strength is hitting UK manufacturers. However, the pound rebounded from a low of DM2.8593 against the D-Mark to close at DM2.868, just 0.4 pfennigs down on the day.

■ Pound in New York

Jun 25	—Latest—	– Prev. close –
£ spot	1.6635	1.6690
1 mth	1.6623	1.6677
3 mth	1.6595	1.6647
1 yr	1.6475	1.6516

Euroyen contracts

March 1998 futures contract (bid price)



Source: Datastream

■ The markets now expect Japan to raise interest rates late this year. Euroyen futures contracts dipped yesterday to reflect this view – the March 1998 contract now prices in rates of more than 1 per cent. Currently rates are 0.5 per cent.

Yesterday's gains in the Nikkei stock index fed the view that rates would indeed rise. With the stock market showing it can live with higher rates, it becomes easier for the Bank of Japan to raise.

Mr Michael Burke, senior economist at Citibank in London, said a rate rise would scarcely hit the economy. Real interest rates were currently negative, he noted. "The Bank of Japan would be taking its foot of the accelerator, rather than putting its foot on the brake."

■ Mr Brian Marber, the technical analyst, has written a poem attacking his fundamentalist rivals.

He has also forecast that the dollar will fall to between Y104 and Y109 against the yen by August 9. The dollar has had five upswings since 1978, he reasons. All had one thing in common. As soon as the one-year average was penetrated conclusively on the downside, the dollar fell between 5.6 per cent and 17.1 per cent in the next five to nine weeks. Ominously for the US currency, the one-year average was penetrated at the start of June.

■ Mr Parsons predicts a dull month. The dollar has traded in a range of just 8 pfennigs against the D-Mark since February and seems stuck there for now, he says. The dollar/yen rate has been more exciting, with the dollar plunging 12 per cent in May. But now, says Mr Parsons, governments seem to want to keep the currency between Y113 and Y115. And, he remarks, "the market listens to the authorities with much more respect after the carnage of May."

■ OTHER CURRENCIES

Jun 25	£	$
Czech Rp	52.8527 - 52.9644	31.7720 - 31.8200
Hungary	308.383 - 308.632	185.370 - 185.420
Iran	4993.50 - 4990.50	3000.00 - 3000.00
Kuwait	0.5024 - 0.5028	0.3020 - 0.3021
Poland	5.3823 - 5.3888	3.2355 - 3.2370
Russia	9588.41 - 9595.84	5764.00 - 5765.00
U.A.E.	6.1090 - 6.1134	3.6724 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

Jun 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.1815	-0.0293	719 - 911	20.2725	20.1517	20.1271	3.2	20.0144	3.3	19.5089	3.3	102.6
Belgium	(BFr)	59.1885	-0.0645	374 - 396	59.4510	59.0320	59.0214	3.4	58.6781	3.4	57.1368	3.5	102.4
Denmark	(DKr)	10.9239	-0.0149	189 - 288	10.9683	10.8964	10.8968	5.0	10.8392	3.1	10.5897	3.1	104.9
Finland	(FM)	8.5873	-0.0179	805 - 940	8.6480	8.5760	8.562	3.5	8.5095	3.6	8.2968	3.4	82.2
France	(FFr)	9.6795	-0.0176	757 - 832	9.7228	9.6552	9.6534	3.2	9.5988	3.3	9.3542	3.4	104.9
Germany	(DM)	2.8678	-0.0043	665 - 691	2.8817	2.8600	2.8594	3.5	2.842	6.6	2.7652	3.6	103.4
Greece	(Dr)	453.041	-0.211	821 - 260	456.004	451.175	454.824	-4.7	457.448	-3.9	465.818	-2.8	65.2
Ireland	(I£)	1.0946	-0.0053	935 - 956	1.0994	1.0935	1.0942	6.4	1.0932	0.5	1.0852	0.9	88.9
Italy	(L)	2798.93	-7.7	718 - 069	2814.10	2795.54	2799.01	0.0	2799.03	0.0	2797.38	0.1	78.6
Luxembourg	(LFr)	59.1885	-0.0645	374 - 396	59.4516	59.0320	59.0214	3.4	58.6781	3.4	57.1368	3.5	102.4
Netherlands	(Fl)	3.2283	-0.0038	269 - 298	3.2422	3.2188	3.2189	3.5	3.1998	3.5	3.1159	3.5	101.9
Norway	(NKr)	12.0652	-0.0023	574 - 730	12.1036	12.0190	12.0326	5.2	11.9667	3.3	11.7011	3.0	96.1
Portugal	(Es)	289.370	-0.731	200 - 540	290.907	289.683	289.214	6.6	288.694	0.9	284.598	1.6	93.2
Spain	(Pta)	242.162	-0.358	989 - 335	243.220	241.570	241.908	1.3	241.294	1.5	237.616	1.9	77.2
Sweden	(SKr)	12.7838	-0.0703	737 - 938	12.9143	12.7737	12.7594	2.3	12.707	2.4	12.4967	2.2	84.2
Switzerland	(SFr)	2.3920	-0.0027	904 - 936	2.4021	2.3904	2.3815	3.3	2.3602	5.3	2.2695	5.1	105.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.3
Ecu	-	1.4636	-0.0033	627 - 645	1.4692	1.4592	1.4607	2.4	1.4542	2.6	1.4246	2.7	-
SDR†	-	1.196589	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6636	-0.002	632 - 643	1.6712	1.6626	-	-	-	-	-	-	-
Brazil	(R$)	1.7912	-0.0024	904 - 920	1.7989	1.7902	-	-	-	-	-	-	-
Canada	(C$)	2.3225	-0.0052	214 - 236	2.3250	2.3144	2.3156	3.5	2.3025	3.4	2.2529	5.0	83.5
Mexico (New Peso)		13.2247	-0.0059	165 - 328	13.2604	13.2042	-	-	-	-	-	-	-
USA	($)	1.6640	-0.002	635 - 645	1.6715	1.6628	1.6627	0.8	1.6589	1.0	1.6475	1.0	102.4
Pacific/Middle East/Africa													
Australia	(A$)	2.2147	-0.0027	133 - 161	2.2278	2.2133	2.2141	0.3	2.2122	0.5	2.2022	0.8	91.9
Hong Kong	(HK$)	12.8877	-0.0147	830 - 924	12.9448	12.8792	12.8867	6.1	12.8803	0.2	12.8252	0.5	-
India	(Rs)	59.5629	-0.1049	034 - 224	59.8650	59.5034	59.7581	-3.9	60.1587	-4.0	61.8384	-3.3	-
Israel	(Shk)	5.9029	-0.0444	865 - 193	5.9385	5.8343	-	-	-	-	-	-	-
Japan	(Y)	189.596	-1.744	456 - 736	191.740	188.980	188.621	6.2	186.668	6.2	178.381	5.9	133.3
Malaysia	(M$)	4.1988	-0.0009	962 - 004	4.2163	4.1992	4.2025	-1.2	4.2105	-1.2	4.2292	-0.7	-
New Zealand	(NZ$)	2.4278	-0.0083	260 - 292	2.4441	2.4228	2.4274	0.1	2.4284	-0.1	2.4358	-0.3	112.2
Philippines	(Peso)	43.8880	-0.0528	332 - 428	43.9428	43.8332	44.0478	-4.4	44.2973	-3.7	45.3543	-3.3	-
Saudi Arabia	(SR)	6.2412	-0.0077	390 - 434	6.2691	6.2379	6.2377	0.7	6.2293	0.8	6.1928	0.8	-
Singapore	(S$)	2.3741	-0.0075	725 - 756	2.3856	2.3725	2.3695	2.4	2.3594	2.5	2.3112	2.8	-
South Africa	(R)	7.4989	-0.0002	941 - 036	7.5244	7.4921	7.5596	-8.7	7.6775	-9.5	8.1144	-8.2	-
South Korea	(Won)	1477.63	-0.95	386 - 141	1484.63	1473.88	-	-	-	-	-	-	-
Taiwan	(T$)	46.3591	-0.069	116 - 063	46.5680	46.3116	46.3425	0.4	46.3027	0.5	46.105	0.5	-
Thailand	(Bt)	42.9895	-0.16	516 - 273	43.1100	40.4490	43.3261	-9.4	43.7877	-7.4	44.8179	-4.3	-

† Rates for Jun 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.1283	-0.0031	262 - 304	12.1465	12.0895	12.1043	2.4	12.0553	2.4	11.8313	2.4	102.4
Belgium	(BFr)	35.5700	+0.004	500 - 900	35.6210	35.4590	35.495	2.5	35.3435	2.5	34.65	2.6	102.4
Denmark	(DKr)	6.5648	-0.0011	638 - 658	6.5731	6.5442	6.5531	2.1	6.5288	2.2	6.4224	2.2	104.3
Finland	(FM)	5.1606	-0.0046	581 - 631	5.1830	5.1489	5.149	2.7	5.1254	2.7	5.0316	2.5	81.6
France	(FFr)	5.8170	-0.0036	165 - 175	5.8255	5.7992	5.8056	2.4	5.7816	2.4	5.6726	2.5	104.4
Germany	(DM)	1.7235	-0.0005	232 - 237	1.7285	1.7182	1.7197	2.7	1.7119	2.7	1.6769	2.7	103.1
Greece	(Dr)	272.260	+0.2	216 - 310	272.860	270.970	273.555	-5.7	275.61	-4.9	282.76	-3.9	65.0
Ireland	(I£)	1.5203	+0.0058	193 - 213	1.5216	1.5157	1.5195	0.6	1.5158	6.4	1.519	2.1	-
Italy	(L)	1682.05	-2.6	150 - 260	1686.10	1678.50	1683.82	-1.3	1686.83	-1.1	1690.25	-0.5	76.3
Luxembourg	(LFr)	35.5700	+0.004	500 - 900	35.6210	35.4590	35.495	2.5	35.3435	2.5	34.65	2.6	102.4
Netherlands	(Fl)	1.9401	-	396 - 403	1.9455	1.9335	1.9358	2.6	1.9273	2.6	1.8896	2.6	101.8
Norway	(NKr)	7.2507	-0.0073	482 - 532	7.2560	7.1910	7.2363	2.4	7.2078	2.4	7.0961	2.1	95.7
Portugal	(Es)	173.900	-0.23	850 - 950	174.300	173.490	173.884	0.3	173.81	0.2	172.64	0.7	93.6
Spain	(Pta)	145.530	-0.04	470 - 590	145.700	145.140	145.485	0.4	145.31	0.6	144.135	1.0	78.9
Sweden	(SKr)	7.6826	-0.033	788 - 863	7.7368	7.6784	7.6735	1.4	7.6542	1.5	7.5822	1.3	83.5
Switzerland	(SFr)	1.4375	+0.0001	370 - 380	1.4406	1.4359	1.4322	4.5	1.4215	4.5	1.376	4.3	104.8
UK	(£)	1.6640	-0.002	635 - 645	1.6715	1.6628	1.6627	0.9	1.6589	1.0	1.6473	1.0	101.2
Ecu	-	1.1370	+0.0012	366 - 373	1.1400	1.1360	1.1384	-1.5	1.1417	-1.6	1.1572	-1.8	-
SDR†	-	0.71802	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0765	-0.0001	763 - 766	1.0767	1.0763	-	-	-	-	-	-	-
Canada	(C$)	1.3958	+0.0048	955 - 960	1.3970	1.3904	1.3926	2.7	1.3889	2.5	1.3663	2.1	83.6
Mexico (New Peso)		7.9475	+0.006	450 - 500	7.9500	7.9420	8.058	-16.4	8.257	-16.1	9.1775	-15.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3309	-	305 - 314	1.3314	1.3305	1.3307	0.2	1.3301	0.2	1.3258	0.4	94.1
Hong Kong	(HK$)	7.7450	+0.0005	445 - 456	7.7460	7.7445	7.7455	-0.1	7.7464	-0.1	7.7497	0.0	-
India	(Rs)	35.7950	-0.02	700 - 200	35.8200	35.7700	35.9325	-4.6	36.2175	-4.7	37.43	-4.6	-
Israel	(Shk)	3.5474	+0.0309	386 - 562	3.5671	3.5004	-	-	-	-	-	-	-
Japan	(Y)	113.940	-0.91	880 - 980	114.820	113.300	113.425	5.4	112.425	5.3	108.125	5.1	133.5
Malaysia	(M$)	2.5230	+0.0025	225 - 235	2.5240	2.5190	2.5275	-2.1	2.5365	-2.1	2.5665	-1.7	-
New Zealand	(NZ$)	1.4589	-0.0032	584 - 594	1.4594	1.4584	1.4597	-0.7	1.4621	-0.9	1.4722	-0.9	-
Philippines	(Peso)	26.3750	-	500 - 000	26.4000	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	-0.0001	505 - 509	3.7509	3.7505	3.7514	-0.2	3.7524	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.4267	-0.0028	262 - 272	1.4295	1.4262	1.425	1.5	1.4212	1.6	1.4017	1.8	-
South Africa	(R)	4.5065	+0.0055	050 - 080	4.5100	4.5001	4.547	-10.8	4.6285	-10.7	4.929	-9.4	-
South Korea	(Won)	888.000	+0.5	000 - 000	890.000	886.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.8600	-0.02	400 - 800	27.8800	27.8400	27.871	-0.5	27.88	-0.3	27.9725	-0.4	-
Thailand	(Bt)	25.8350	-0.065	200 - 500	25.8500	24.2500	28.08	-10.5	26.385	-8.5	27.21	-5.3	-

† SDR rate per $ for Jun 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 24; Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

INTEREST RATES

MONEY RATES

June 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.16	-	4.75
Germany	3	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.25	6.75	6.82
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
Switzerland	1	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	½	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.48	5.59	5.68	5.88	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	7 - [illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.56	96.58	-0.02	96.60	96.58	18,099	76,942
Dec	96.53	96.54	-0.02	96.56	96.53	3,409	34,690
Mar	96.45	96.47	+0.02	96.48	96.45	2,323	31,005

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.83	96.83	-	96.84	96.83	15454	274545
Dec	96.73	96.74	-0.02	96.75	96.72	39811	272287
Mar	96.62	96.64	+0.02	96.65	96.62	22071	233262
Jun	96.44	96.48	+0.03	96.49	96.44	18637	165540

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jul	-	96.89	-	-	-	6	395
Aug	-	96.88	-	-	-	6	290
Sep	-	96.86	-	-	-	6	3
Oct	-	96.85	+0.01	-	-	6	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.50	93.54	-0.04	93.56	93.47	35879	115089
Dec	93.81	93.97	-0.06	93.98	93.87	22481	73489
Mar	94.15	94.24	+0.08	94.25	94.14	11870	45790
Jun	94.30	94.40	-0.10	94.46	94.28	6404	33750

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.53	98.53	-	98.53	98.48	7313	72730
Dec	98.35	98.37	-	98.37	98.32	5823	43939
Mar	98.24	98.26	-0.01	98.27	98.21	722	16227
Jun	98.09	98.10	-0.01	98.11	98.07	81	3959

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.28	99.29	-0.04	99.29	99.28	200	n/a
Dec	99.03	99.03	-0.12	99.03	99.03	500	n/a
Mar	98.78	98.77	-0.17	98.78	98.77	508	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.81	95.98	-0.04	95.87	95.81	1080	5891
Dec	95.81	95.81	+0.03	95.81	95.78	231	6103
Mar	95.77	95.78	+0.03	95.78	95.77	126	4265
Jun	95.69	95.73	-0.05	95.71	95.69	299	2873

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9350	0.18	0.58	0.87	0.14	0.11	0.13
9375	0.07	0.39	0.68	0.28	0.17	0.19
9400	0.02	0.24	0.51	0.48	0.27	0.27

Est. vol. total, Calls 5816 Puts 1591. Previous day's open int., Calls 68404 Puts 35811

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	16.46	16.35	4.845	1.849	4728	5.454	20.38	488.9	409.1	21.60	4.041	1.690	3.924	2.811	320.3	2.473
Denmark	(DKr)	54.18	10	8.861	2.625	1.002	2562	2.955	11.04	264.9	221.7	11.70	2.190	0.915	2.126	1.523	173.6	1.340
France	(FFr)	61.15	11.29	10	2.963	1.131	2892	3.335	12.46	299.0	250.2	13.21	2.471	1.033	2.400	1.718	195.8	1.512
Germany	(DM)	20.64	3.809	3.375	1	0.382	976.0	1.126	4.207	100.9	84.44	4.458	0.834	0.349	0.810	0.580	66.11	0.510
Ireland	(I£)	54.08	8.980	8.844	2.620	1	2557	2.950	11.02	264.4	221.2	11.68	2.185	0.914	2.122	1.520	173.2	1.337
Italy	(L)	2.115	0.390	0.346	0.102	0.039	100	0.115	0.431	10.34	8.652	0.457	0.085	0.036	0.083	0.059	6.774	0.052
Netherlands	(Fl)	18.33	3.384	2.998	0.888	0.339	867.0	1	3.737	89.65	75.01	3.960	0.741	0.310	0.718	0.515	58.73	0.453
Norway	(NKr)	49.06	9.054	8.023	2.377	0.907	2320	2.676	10	239.8	200.7	10.60	1.983	0.829	1.925	1.379	157.1	1.213
Portugal	(Es)	20.45	3.775	3.345	0.991	0.378	967.3	1.116	4.169	100	83.69	4.418	0.827	0.346	0.803	0.575	65.52	0.506
Spain	(Pta)	24.44	4.511	3.997	1.184	0.452	1156	1.333	4.982	119.5	100	5.279	0.988	0.413	0.959	0.687	78.29	0.604
Sweden	(SKr)	46.30	8.545	7.572	2.243	0.856	2189	2.525	9.438	226.4	189.4	10	1.871	0.782	1.817	1.302	148.3	1.145
Switzerland	(SFr)	24.74	4.567	4.047	1.199	0.458	1170	1.350	5.044	121.0	101.2	5.344	1	0.418	0.971	0.696	79.26	0.612
UK	(£)	59.18	10.92	9.679	2.868	1.095	2799	3.228	12.07	289.4	242.2	12.78	2.392	1	2.323	1.664	189.6	1.464
Canada	(C$)	25.48	4.703	4.168	1.235	0.471	1205	1.390	5.195	124.6	104.3	5.504	1.030	0.431	1	0.716	81.63	0.630
USA	($)	35.57	6.565	5.817	1.724	0.658	1682	1.940	7.251	173.9	145.5	7.683	1.438	0.601	1.396	1	113.9	0.880
Japan	(Y)	31.22	5.762	5.105	1.513	0.577	1476	1.703	6.364	152.6	127.7	6.743	1.262	0.527	1.225	0.878	100	0.772
Ecu	-	40.44	7.464	6.614	1.960	0.748	1912	2.206	8.244	197.7	165.5	8.735	1.634	0.683	1.587	1.137	129.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5837	0.5840	+0.0009	0.5854	0.5825	11,922	59,018
Dec	-	0.5868	-	0.5877	-	18	675
Mar	-	0.5920	-	-	-	2	123

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8812	0.8886	+0.0081	0.8929	0.8806	18,318	51,660
Dec	-	0.9020	+0.0086	0.9030	-	14	1,092
Mar	-	0.9045	-	-	-	2	107

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7016	0.7026	+0.0015	0.7034	0.7011	10,198	32,340
Dec	-	0.7092	-0.0004	0.7097	-	38	858
Mar	-	0.7145	-	-	-	60	70

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6630	1.6602	-0.0022	1.6672	1.6588	17,422	55,130
Dec	1.6580	1.6580	-0.0018	1.6590	1.6556	127	409
Mar	-	1.6540	+0.0006	1.6540	1.6520	1	2

UK INTEREST RATES

LONDON MONEY RATES

Jun 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Jun 13, 6.3110pc. ECGD fixed rate Stg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.96	92.97	+0.01	92.98	92.95	20860	130103
Dec	92.74	92.78	+0.02	92.80	92.74	21794	111848
Mar	92.62	92.68	+0.04	92.70	92.62	15018	83985
Jun	92.58	92.64	+0.06	92.66	92.58	15983	53489
Sep	92.59	92.63	+0.07	92.65	92.59	8573	34871

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9275	0.26	0.19	0.23	0.04	0.16	0.30
9300	0.09	0.08	0.12	0.12	0.30	0.44
9325	0.02	0.02	0.06	0.30	0.49	0.63

Est. vol. total, Calls 4152 Puts 8490. Previous day's open int., Calls 124449 Puts 115252

EMS EUROPEAN CURRENCY UNIT RATES

Jun 25	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.750931	-0.003243	-5.98	8.33	40
Portugal	197.398	198.510	-0.172	0.56	2.21	-4
Finland	5.85424	5.89425	+0.0132	0.68	2.09	-5
Italy	1906.48	1921.21	-1.58	0.77	2.00	-6
Spain	163.826	166.100	-0.039	1.39	1.38	-10
Denmark	7.34555	7.49135	-0.00086	1.98	0.79	-14
Netherlands	2.16979	2.21380	+0.00013	2.03	0.74	-15
Germany	1.92573	1.96684	-0.00036	2.13	0.64	-21
Austria	13.5485	13.8404	-0.003	2.15	0.62	-16
Belgium	39.7181	40.5864	-0.007	2.18	0.59	-16
France	6.45863	6.63865	-0.00067	2.79	0.00	-23
NON ERM MEMBERS						
Greece	295.259	310.564	+0.24	5.18	-2.27	-
UK	0.793103	0.684701	+0.001182	-13.67	19.06	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
1.650	2.09	2.88	3.06	0.55	1.37	1.89
1.660	1.44	2.17	2.53	0.81	1.80	2.34
1.670	0.94	1.69	2.10	1.41	2.33	2.82

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
0.575	0.74	1.10	1.39	0.21	0.48	0.81
0.580	0.43	0.83	1.09	0.41	0.67	0.82
0.585	0.24	0.59	0.84	0.70	0.91	1.06

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.14	94.14	-0.03	94.15	94.13	49,865	557,943
Dec	93.94	93.94	-	93.95	93.92	57,165	423,370
Mar	93.86	93.86	-	93.86	93.84	41,005	292,323

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.82	94.82	-	94.82	94.82	238	7,388
Dec	-	94.64	-	-	-	25	386

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9675	0.08	0.10	0.10	0.10	0	0.02	0.02	0.11
9700	0.01	0.01	0.01	0.02	0.18	0.18	0.18	0.28
9725	0	0	0	0	0.42	0.42	0.42	0.51

Est. vol. total, Calls 3089 Puts 9834. Previous day's open int., Calls 343223 Puts 287373

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9875	0.06	0.08	0.08	0.26	0.46	0.55
9900	0.01	0.02	0.02	0.48	0.85	0.76

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3025 Puts 3255

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	●Singer & Friedlander	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.50		

● Members of London Investment Banking Association
* In administration

Opec members to return to export quotas

By Robert Corzine in Vienna and Gary Mead in London

Some of the world's biggest oil exporters last night agreed to return to their Opec quotas after several days of campaigning by Saudi Arabia and Iran for greater production discipline within the Organisation of Petroleum Exporting Countries.

The ministers meeting in a three-hour informal session without their aides also agreed to roll over for six months the present production ceiling and to maintain individual national quotas. But they also agreed on certain "undertakings" pledging them to adhere to those quotas, according to Mr Rilwanu Lukman, Opec's secretary general.

The initial statements about the decision elicited some scepticism from traders and analysts attending the Vienna meeting. But Mr Abdalla El-Badri, Libya's oil minister, said it would be up to the markets to decide whether the Opec action was credible or not.

The message that is thought to have been delivered at the meeting was that only relatively small cutbacks would be needed in Opec output to help prop up prices.

Unlike at previous meetings, Saudi Arabia has daliberately adopted a higher profile this week. Mr Ali Naimi, the Saudi oil minister, has clearly decided his delegation should be seen to be taking a more active part in this week's talks.

Over the past few days Mr Naimi has moved frequently between the various botels housing the 11 delegations, meeting different combinations of Opec member states. Oil traders and analysts doubted, bowaver, whether the change of style would result in any substantive action.

Another topic of speculation yesterday was the timing of Iraq's return to the oil markets under the second phase of the UN's oil-for-food programme.

Baghdad is angry that the bulk of the funds raised from the sale of $2bn worth of oil in the past six months is still languishing in western escrow accounts, instead of being used to purchase food, medicine and other humanitarian items.

Traders fear that an early resolution of the dispute could trigger a sudden return of Iraqi exports to the oil markets and lead to weaker prices.

Lack of firm news from the Opec meeting left the price for Brent oil on London's International Petroleum Exchange little changed yesterday. Brent for August delivery was up 38 cents at $18.18 a barrel in late trading.

Coffee row rocks Liffe

By Gary Mead

A diapute has erupted between some large coffee traders and the London International Financial Futures Exchange over the new quality-grading scheme for robusta coffee operated by the exchange.

Liffe is today dua to maka an announcement concerning the clash.

Traders have complained that the rules in effect mean that at least 24,000 tonnes of coffee that had received a Liffe three-year quality certification must be regraded.

"Coffee traders are angry that they potentially stand to lose about $50 a tonne on coffee that passed the old quality tests but might fail the new," said one trader. "People who had that three-year certification face a financial loss not of tbeir own making."

The change in the grading rules was announced by Liffe in March 1996 after two years of deliberation and consultation. It takes effect next month and was introduced to take accoont of the growing importance of non-African robusta producers, such as Vietnam.

The most important change in the grading process concerns tests for mould.

Under the old rules, examination for mould was a subjective process, but the new regulations have introduced a measure of objectivity, by stating that the presence of 10 or more mouldy beans in any 500g sample means that it fails the quality test.

Given that there are about 8,500 beans in 500g, it is proving much easier to fail this more rigorous test.

One coffee trader said: "In tha case of Ivory Coast robusta, wbicb normally sees around 80 per cent of its produce meeting tha grade, only 20 per cent is currently passing. These changes were announced two years ago in order to reflect the growth in the robusta business, but ironically they have anded up by restricting it."

Liffe officials have so far argued that the more stringent mould test is essential, as moisture and mould have been linked by scientists to the presence of ochratoxins, micro-organisms which in turn have been connected to the development of cancer.

It is too early to tell how big the losses might be for traders stuck with beans that fail to meet Liffe's new tests.

Bnt tbey are deeply unhappy. One said yesterday: "There is a growing feeling among the trade that Liffe has become too big and that the powers that be there don't understand physically-deliverable markets."

GMS strikes a rich seam in Sardinia

After a gap of some 400 years, gold is being poured again today on the Italian island

A little Russian-built. four-wheel drive vehicla manoeuvres around a boulder on the narrow track along a hillside near Osilo, in the north of the Italian island of Sardinia. "That rock is worth $20,000," says Mr John Stockley, with a grin.

Mr Stockley is a consulting geologist working for Gold Mines of Sardinia, a company managed by Australians which last year was listed on London's Alternative Investment Market (Aim) and the Luxembourg stock exchange.

In 1988, gold was discovered by students from the University of Cagliari, the capital of Sardinia. This was startling because, although Italy is Europe's biggest consumer of gold, it has not produced any for at least 400 years, when the Spanish tentatively mined for gold along the coast of Sardinia.

Although there is a long history of mining on Sardinia – silver, lead, zinc and copper have been produced in the past, and today silica sand, kaolin, felspar and bentonite – no new mines have been developed in Italy for 20 years.

The gold at Osilo was missed over the centuries because it is virtually invisible and finely disseminated through the rock. After the discovery, Sardinia's regional government decided to go into partnership with a company that could provide the experience and expertise to identify and extract the gold. It chose Gold Mines of Sardinia.

Nevertheless, some local people showed a great deal of scepticism when the Australians arrived.

"Soma peopla won't believe there's any gold on Sardinia until they know it has actually been produced," says Mr Pietro Pinna, president of Emsa, Sardinia's domestic mining group.

The wait is over. Today the first gold will be poured at the Furtel mins, 40km from Cagliari in the south of the island.

GMS owns 70 per cent of Sardinia Gold Mining, the company that has developed Furtei and has the exclusiva rights to explore for gold anywhere on the island – roughly 280km long and 120km wida. An Emsa subsidiary, Progemisa, owns the remaining 30 per cent.

When GMS was listed on Aim a year ago, it said it would produce a modest 25,000 ounces of gold annually from four open pits at Furtel for about three years to generate cash flow for further exploration.

However, Mr Bill Humphries, SGM chief executive, says so much gold is being collected that be expects to produce 45,000 oz a year, possibly rising to 70,000 oz. In addition, exploration in the area in the past six months has been so successful it has doubled the mine's expected life.

Mr Humphries wants to push ahead with exploration at Osilo, on the other side of the island, so a bankable feasibility study can be ready by the end of next year.

SGM also needs to explore the rest of the island so it can put other prospective areas under license; it has already tied up nearly 300,000 hectares. The company's exclusiva right to explore for gold expires next April, but, given its warm ralationship witb the regional government and Emsa, Mr Humphriaa expects that an extension will be granted.

GMS was founded by Mr John Morris, its managing director, and Mr John Chappell, a consulting geologist and non-executiva director, who had been responsible for the discovery and development of a clutch of mining projects in Australia.

But it has not been all plain sailing. Mr Morris admits that a full year was lost while GMS negotiated a grant from the Italian government. There were further delays when beavy rain held up construction work at Furtei for about three months.

SGM spent US$13m to get Furtei up and running. About $1m a year has been spent on exploration near the mine, and this is likely to be increased. Another $4m was spent exploring and drilling elsewhere on the island last year. Running costs are expected to be low at Furtei, under $200 an ounce.

"There is enough work to be done in Sardinia for a company five times our size," says Mr Morris. "The destiny of GMS must be in Europe. And we want to be a pure gold play."

He suggests that in about two years, when a mine at Osilo is in production, SGM's – and Italy's – annual gold output will rise to 200,000 oz.

Kenneth Gooding

Kenneth Gooding

John Morris: wants GMS to be a pure gold play

Copper falls on selling by funds

MARKETS REPORT

By Kenneth Gooding and Gary Mead

Copper prices were driven down again yesterday by more speculative selling. Copper for delivery in three months on the London Metal Exchange dropped to $2,355 a tonne at one point, its lowest for seven weeks and $230, or 9 per cent, below the $2,594 seen last Friday.

Mr William Adams, analyst at Rudolf Wolff, suggested the selling came from investment funds anticipating a copper supply surplus that is widely predicted to materialise later this year.

Some traders said yesterday's small rise in LME copper stocks, tbe expected slowing of damand during tbe northern bemispbere summer, and copper's failure to drive conclusively througb the key level of $2,600 a tonne earlier this montb, had combined to keep buyers away. They said the fall was exaggerated by options-related activity.

At the close, three-month copper bad recoverad slightly to end at $2,373 a tonne, still $64 down from Tuesday's close.

The recent rise in cocoa on tha London International Financial Futures Exchange ran out of steam yesterday as profit-taking halted a rally that took the September future to a one-year high at the start of the week. The September contract was down £10 a tonne to £1,136 – having peaked at £1,150.

A similar pattern was seen on the New York Coffee, Sugar and Cocoa Exchange, where the September contract had lost $27 a tonne by midday to $1,685.

On Liffe, coffee also failed to sparkle, though the September future finished up $35 at $1,850 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1535-36	1559-60
Previous	1561.5-2.5	1585-6
High/low		1578/1543
AM Official	1553-53.5	1575-75.5
Kerb close		1569-70
Open int.	256,564	
Total daily turnover	108,906	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1432-37	1460-63
Previous	1435-40	1466-8
High/low		1462/1450
AM Official	1433-34	1462-64
Kerb close		1460-65
Open int.	4,982	
Total daily turnover	1,708	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	604-5	618-9
Previous	605.5-6.0	620-1
High/low	604.5	621/618
AM Official	604-5	617-8
Kerb close		618-9
Open int.	33,749	
Total daily turnover	4,353	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6925-35	7040-50
Previous	7055-65	7170-80
High/low		7165/7010
AM Official	7005-10	7133-35
Kerb close		7040-50
Open int.	51,734	
Total daily turnover	22,995	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5520-30	5570-80
Previous	5550-55	5610-15
High/low		5590/5550
AM Official	5530-35	5575-80
Kerb close		5560-65
Open int.	14,074	
Total daily turnover	3,522	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1359-60	1378-79
Previous	1386-7	1403-4
High/low		1400/1356
AM Official	1376-77	1393-94
Kerb close		1395-96
Open int.	95,023	
Total daily turnover	34,636	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2491-96	2381-82
Previous	2625.5-7.5	2496-7
High/low	2552/2494	2435/2355
AM Official	2550-51	2431-32
Kerb close		2372-73
Open int.	120,026	
Total daily turnover	151,486	

■ LME AM Official £/$ rate: 1.6668
LME Closing £/$ rate: 1.6640

Spot 1.6631 3 mths 1.6590 6 mths 1.6548 9 mths 1.6504

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	109.70	-3.00	112.80	109.50	495	799
Jul	109.20	-2.95	113.50	108.20	16,322	15,614
Aug	108.95	-2.20	110.00	108.40	254	2,895
Sep	108.80	-1.95	112.00	108.00	9,971	18,601
Oct	107.30	-1.05	109.50	108.00	29	1,273
Nov	106.40	-1.35	107.90	106.00	0	1,229
Total					27,936	53,878

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	338.60-339.10		
Opening	337.90-338.10		
Morning fix	338.70	203.46	486.88
Afternoon fix	338.45	203.25	486.95
Day's High	339.25-339.55		
Day's Low	337.90-338.10		
Previous close	338.30-338.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.47	6 months	4.41
2 months	4.47	12 months	4.32
3 months	4.48		

Silver Fix	p/troy oz.	US cts equiv.
Spot	286.25	477.25
3 months	290.45	483.00
6 months	294.70	488.80
1 year	303.45	500.60

Gold Coins	$ price	£ equiv.
Krugerrand	339-341	204-205
Maple Leaf	-	-
New Sovereign	79-82	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	337.3	-0.5	339.0	338.0	34	309
Aug	339.0	-0.5	341.2	338.7	16,987	95,047
Oct	341.5	-0.5	343.7	341.5	79	8,038
Dec	344.0	-0.6	346.1	343.7	390	27,745
Feb	346.5	-0.6	-	-	308	8,899
Apr	348.8	-0.6	-	-	100	4,576
Total					18,138	185,481

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	411.5	+2.1	416.5	408.5	2,577	5,603
Oct	405.0	+4.6	409.0	399.4	1,534	8,778
Jan	399.5	+4.6	402.0	397.0	118	1,726
Apr	399.5	+4.6	-	-	4	131
Total					4,229	16,236

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	198.15	-5.75	202.00	201.80	10	62
Sep	181.15	+2.25	184.00	177.00	243	5,610
Dec	177.15	+4.60	178.00	175.00	52	664
Jun	171.15	+4.60	-	-	-	95
Total					311	6,449

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	475.2	+0.6	-	-	2	2
Jul	475.5	+0.5	478.5	474.5	16,341	27,345
Sep	480.5	+0.6	483.0	479.5	10,294	33,306
Dec	487.5	+0.7	490.5	486.5	822	8,419
Jan	489.4	+0.7	-	-	1	10
Mar	494.4	+0.8	495.0	495.0	147	8,238
Total					28,323	88,960

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.96	-0.07	19.24	18.85	37,525	100k
Sep	19.10	-0.10	19.35	19.03	17,001	42,212
Oct	19.19	-0.12	19.43	19.13	3,968	28,846
Nov	19.27	-0.14	19.53	19.25	1,476	19,287
Dec	19.40	-0.10	19.60	19.35	5,697	40,077
Jan	19.45	-0.11	19.50	19.45	1,583	18,217
Total					73,257	388,351

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	17.78	-0.09	17.99	17.70	13,020	74,875
Sep	17.93	-0.10	18.15	17.89	5,921	37,078
Oct	18.11	-0.08	18.33	18.10	3,436	15,482
Nov	18.24	-0.07	18.38	18.23	1,825	10,157
Dec	18.35	-0.04	18.50	18.31	1,503	15,583
Jan	18.40	+0.01	18.47	18.40	169	8,027
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.75	+0.10	52.20	51.50	10,855	19,205
Aug	52.05	+0.19	52.50	51.75	8,977	37,471
Sep	52.70	-0.11	53.15	52.50	1,557	16,710
Oct	53.67	-0.09	54.10	53.50	1,476	15,972
Nov	54.65	-0.06	55.15	54.55	1,274	12,688
Dec	55.45	-0.11	55.90	55.40	812	15,717
Total					25,715	151,798

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	160.25	-	161.25	159.25	8,751	20,007
Aug	162.00	-0.25	163.00	161.25	2,924	15,392
Sep	164.50	-	165.00	163.75	1,120	8,547
Oct	167.00	-0.25	167.50	166.25	334	6,774
Nov	169.00	-0.25	169.25	168.50	83	4,192
Dec	170.50	-0.25	171.00	170.00	398	9,293
Total					8,906	71,938

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.270	-0.016	2.305	2.270	31,234	21,635
Aug	2.280	-0.016	2.280	2.250	11,963	34,002
Sep	2.250	-0.006	2.270	2.240	2,669	19,037
Oct	2.250	-0.007	2.270	2.240	3,206	22,025
Nov	2.370	-0.002	2.380	2.365	1,254	10,453
Dec	2.465	-0.010	2.500	2.480	929	13,213
Total					55,268	203,873

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	58.75	+0.07	58.25	58.15	10,712	18,647
Aug	55.55	+0.16	56.00	55.05	10,177	31,729
Sep	55.30	+0.19	55.60	55.00	2,867	10,344
Oct	54.55	+0.14	54.85	54.50	374	5,843
Nov	54.05	-0.01	54.55	54.05	141	2,307
Dec	54.05	+0.19	54.25	54.00	760	5,262
Total					25,103	81,069

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	81.50	+3.00	81.50	79.50	83	256
Sep	84.00	+0.70	84.00	83.75	5	178
Nov	86.75	+0.45	87.30	86.65	128	3,860
Jan	86.85	+0.55	88.95	88.60	100	1,789
Mar	90.80	+0.40	90.80	90.80	16	955
May	92.85	+0.55	92.95	92.90	11	561
Total					325	7,898

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	331.75	-0.75	335.00	329.50	11,240	22,292
Sep	340.00	+1.00	343.50	337.50	8,041	29,728
Dec	352.50	+0.50	356.50	350.50	6,370	26,671
Mar	357.75	+0.25	362.00	357.00	727	3,685
May	357.00	+2.00	361.00	355.00	36	312
Jul	352.00	+1.00	354.50	350.00	445	2,117
Total					26,888	86,925

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	256.25	-4.00	260.00	255.75	33,832	57,479
Sep	242.25	-4.75	247.00	242.00	12,972	50,278
Dec	240.75	-5.00	245.75	240.25	31,656	134,373
Mar	247.75	-4.50	251.50	247.50	1,893	18,504
May	252.75	-4.50	258.00	252.50	525	1,965
Jul	256.50	-4.25	258.00	256.00	1,044	5,042
Total					82,855	272,596

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	82.10	+1.50	-	-	-	34
Nov	85.10	+1.50	85.00	84.25	54	1,175
Jan	87.10	+1.50	-	-	-	164
Mar	88.10	+1.50	-	-	-	15
May	90.60	+1.50	-	-	-	4
Total					54	1,392

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	816.75	-14.25	831.00	814.50	22,227	33,678
Aug	754.50	-13.00	768.00	753.00	11,841	29,901
Sep	685.25	-8.00	692.50	684.00	3,134	10,646
Nov	657.00	-3.75	664.00	654.00	21,347	59,139
Jan	658.50	-3.50	663.50	657.00	1,665	9,511
Mar	662.50	-3.60	668.00	658.50	243	2,456
Total					60,491	148,896

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	22.46	-0.27	22.78	22.43	11,409	25,068
Aug	22.62	-0.28	22.95	22.61	6,322	20,769
Sep	22.80	-0.23	23.05	22.70	2,325	11,340
Oct	22.79	-0.25	23.10	22.75	1,007	12,479
Dec	22.92	-0.27	23.22	22.88	6,849	30,217
Jan	23.08	-0.25	23.30	23.00	359	2,372
Total					28,508	105,322

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	268.9	-4	272.9	268.4	8,570	23,710
Aug	247.4	-3.7	250.0	247.0	5,950	21,463
Sep	229.4	-2.1	230.5	228.5	1,753	13,684
Oct	218.4	-1.4	220.2	218.5	1,604	13,027
Dec	214.4	-1.4	216.0	213.5	4,375	28,624
Jan	211.2	-1.8	213.5	211.2	41	2,983
Total					22,939	109,968

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	-	-	-	-	0
Mar	60.0	-3.0	-	-	-	-
Apr	65.0	-3.0	65.0	63.5	46	770
May	77.0	-3.0	-	-	-	-
Jun	87.0	-3.0	-	-	-	-
Total					46	770

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1285	+10	1285	1285	2	411
Jul	1260	+55	1275	1225	207	1,254
Aug	1215	+25	1235	1210	63	531
Oct	1385	+24	1400	1370	24	865
Jan	1405	+20	1405	1390	25	82
Total					326	3,143

	Close	Prev
BFI	1289	1281

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds
Prices from Kenkko; US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round): RPPC prices at 4,400 CFR/FCA, firm with slow sales. Walnuts US jumbo inshell: 2,300 CPT Europe duty paid. Turkish hazelnuts standard No 1: nervous, price idea 4,800 CFR, new crop at 4,250 CFR. Turkish sultanas: 1,300 CFR MEP, firm with few goods. Iranian industrial apricots: 1,820 CFR MEP firm. Indian cashews: raw crop 1997 CFR Europe, W320 at 5,450, W240 at 5,900, falling slowly. US almonds: crop 1996 27/30 SSR at 5,370 FAS; crop 1997 27/30 SSR 3,920 FAS for September, market decreasing before new estimate due on Friday. Coconut: CFR 1,100 from top Philippine mills, stable. Russian pumpkin seeds: long at 1,850 FOB Italy, good demand means it is a seller's market.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1121	-10	1135	1116	562	15,888
Sep	1137	-9	1150	1130	2,562	31,538
Dec	1140	-7	1151	1135	1,652	36,244
Mar	1150	-9	1162	1145	1,121	43,784
May	1161	-9	1169	1158	1,135	18,800
Jul	1173	-7	1185	1172	754	5,708
Total					8,883	175,621

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1651	-29	1670	1637	87	241
Sep	1683	-29	1698	1675	9,251	41,480
Dec	1729	-28	1742	1715	3,158	21,100
Mar	1758	-28	1770	1747	952	22,511
May	1779	-24	1785	1772	454	9,379
Jul	1796	-20	1801	1787	159	836
Total					14,749	104,426

■ COCOA (ICCO) (SDR's/tonne)

Jun 24	Price	Prev. day
Daily	1303.65	1289.72

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1832	+37	1832	1800	978	7,200
Sep	1850	+35	1852	1820	1,629	24,268
Nov	1824	+29	1820	1800	397	10,609
Jan	1785	+27	1780	1764	150	3,394
Mar	1760	+27	1750	1740	33	552
May	1755	+22	1740	1740	4	53
Total					3,391	46,076

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	200.00	+2.00	202.00	198.00	220	896
Sep	180.15	+5.05	101.00	174.50	3,785	11,105
Dec	157.40	+3.05	158.00	153.05	1,116	4,759
Mar	145.50	+2.00	145.75	141.30	521	2,259
May	140.50	+1.00	140.00	138.50	195	811
Jul	137.50	+1.00	-	-	15	210
Total					5,903	20,400

■ COFFEE (ICO) (US cents/pound)

Jun 24		Prev. day
Comp. daily	144.00	144.75
15 day average	155.10	158.00

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	318.9	+2.2	320.0	315.2	1,480	12,273
Oct	315.6	+1.4	216.4	313.2	963	7,900
Dec	313.6	+2.1	314.5	310.7	477	3,861
Mar	314.5	+2.2	815.1	311.7	238	3,735
May	313.9	+2.2	-	-	-	956
Aug	311.0	+1.3	-	-	-	904
Total					3,159	30,392

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.15	+0.07	11.10	11.00	11,071	28,775
Oct	11.26	+0.11	11.32	11.08	11,054	88,936
Mar	11.24	+0.12	11.26	11.07	2,380	37,082
May	11.15	+0.11	11.15	10.96	357	8,058
Jul	11.06	+0.08	11.06	10.87	194	3,640
Oct	10.96	+0.10	10.00	10.79	30	1,010
Total					25,086	168,213

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	74.20	+0.81	74.50	73.26	1,997	1,888
Oct	76.70	+0.44	76.95	75.80	2,471	12,408
Dec	77.44	+0.51	77.06	76.65	18,384	37,871
Mar	78.35	+0.56	78.70	77.85	575	6,108
May	79.00	+0.62	79.03	-	91	1,332
Jul	79.15	+0.06	79.00	78.35	15	893
Total					21,686	63,387

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.85	-0.85	74.40	73.80	2,346	10,620
Sep	76.50	-0.70	77.25	76.25	2,419	15,400
Nov	79.35	-0.55	80.20	79.25	523	5,510
Jan	82.15	-0.35	83.00	82.00	88	2,215
Mar	84.90	-0.35	85.50	85.00	126	1,541
May	87.65	-0.35	88.75	88.75	3	310
Total					5,519	36,851

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 25	Jun 24	month ago	year ago
1980.8	1992.0	2000.8	1986.5

■ CRB Futures (Base: 1967 = 100)

Jun 24	Jun 23	month ago	year ago
241.44	241.25		

■ GSCI Spot (Base: 1970 = 100)

Jun 24	Jun 23	month ago	year ago
184.25	184.15	198.41	200.63

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,050	to	680,225
Aluminium alloy	+200	to	59,980
Copper	+675	to	123,125
Lead	-125	to	115,825
Nickel	+156	to	62,726
Zinc	-100	to	423,650
Tin	-75	to	11,520

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Aug	63.775	+0.400	63.800	63.100	5,815	43,086
Oct	67.100	+0.325	67.150	66.575	2,077	24,228
Dec	69.625	+0.225	69.700	69.700	937	13,724
Feb	70.825	+0.200	70.850	70.450	507	6,559
Apr	72.975	+0.250	73.025	72.550	172	2,858
Jun	69.050	+0.125	69.250	68.850	214	1,172
Total					9,788	91,898

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	82.400	-0.400	82.600	81.900	3,040	8,006
Aug	79.150	-0.300	79.300	78.850	2,304	12,061
Oct	71.050	-0.225	71.100	70.700	812	7,254
Dec	67.850	-0.175	67.900	67.400	506	4,588
Feb	66.525	-0.050	66.650	66.250	96	1,896
Apr	63.325	+0.075	63.600	63.300	16	1,005
Total					6,916	35,717

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	81.100	+0.550	82.000	79.850	864	3,284
Aug	81.300	+0.600	82.000	80.000	847	3,028
Feb	70.225	-1.350	71.600	70.050	53	503
Mar	69.000	-1.525	70.300	69.000	1	10
Jul	72.000	-0.200	-	72.000	1	2
Total					1,796	6,840

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1525	30	76	5	31
1550	15	62	14	41
1575	5	50	30	53

■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2450	60	50	20	148
2500	32	37	42	184
2550	15	28	75	222

■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1800	292	197	307	147
1850	272	178	337	178
1900	254	160	369	210

■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	e	75	6	38
1125	1	61	28	49
1150	-	51	52	64

■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1750	-	-	35	57
1900	34	75	66	
1850	21	-	-	

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.90-6.96	+0.035
Brent Blend (dated)	$17.52-7.54	-0.07
Brent Blend (Aug)	$17.77-7.79	-0.04
W.T.I.	$18.97-8.99w	-0.08

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$191-193	-2
Gas Oil	$159-161	
Heavy Fuel Oil	$80-82	
Naphtha	$172-174	-2
Jet fuel	$176-178	
Diesel	$165-167	

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	9.30-9.40	
Petroleum Argus. Tel. London (0171) 359 8792		
IPE (Jul)	9.350	

■ OTHER

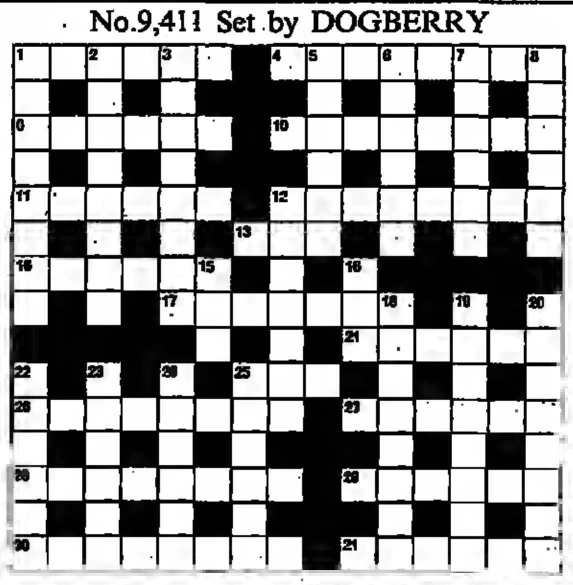
Gold (per troy oz)♣	$338.85	+0.30
Silver (per troy oz)♣	479.00c	
Platinum (per troy oz.)	$416.00	+2.00
Palladium (per troy oz.)	$198.00	+1.50
Copper	113.0c	-6.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.77r	-0.14
Tin (New York)	260.5	-1.0
Cattle (live weight)	93.5099p	+1.05*
Sheep (live weight)	116.84p	-2.38*
Pigs (live weight)†	93.42p	-2.41*
Lon. day sugar (raw)	$271.70	-2.20
Lon. day sugar (wte)	$322.00	-2.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	66.75p	-1.25
Rubber (Sep)♥	65.75p	-1.25
Rubber (KL RSS No1)	272.0z	-2.5
Coconut Oil (Phil)§	650.0y	-2.5
Palm Oil (Malay.)§	580.0w	-2.5
Copra (Phil)§	$415.0y	
Soyabeans (US)	205.0	-2.0
Cotton Outlook'A' index	80.40c	
Wooltops (64s Super)	448p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. z Malaysian cents/kg. x Aug. w Jul. London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,741 head of pigs sold.

JOTTER PAD

CROSSWORD

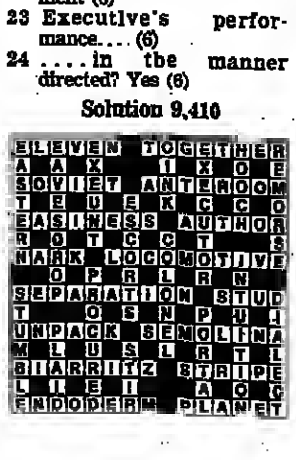
No.9,411 Set by DOGBERRY



ACROSS
1 Hot and bothered layman wanting a song-book (6)
4 Impulse to become multi-disciplined in South America (8)
9 Tha poet's "God of tha Family" (6)
10 Standing invitation to dangle rings in gold (4,4)
11 Dismissal of Faure's first one to four operas (6)
12 It announces visitor to the party sphere at length (8)
13, 18 VIP's fake beehive? (6)
14 Delight that's rather like a wild party? (6)
17 Pollsters securing a victory by a former country (7)
21 Stir gravy initially, before producing bird (6)
25 See 15
26 A lot of hay on the dramatist's cart (8)
27 Supporting longevity, gather food (6)
28 Necessary conditions for one erratic performance (8)
29 Evil intent of graduate infestation (6)
30 The genie comes of age (8)
31 Coronation, perhaps – let it be without soldiers (6)

DOWN
1 Spooner's dropped charge of damnation (4-4)
2 Desecrate tomb of old German ruler (6)
3 Putting arm round Scotsman is heresy (8)
5 Almighty drug raised for Mr Big (3,3)
6 Greek character concealed in horse dung (6)
7 Reduce pressure in the ladies' and gentlemen's quarters (6)
8 Register second coming's original pitch (6)
12 Avoids loose women, so deny all knowledge (7)
15, 25 Nail aristocrat's associate (6)
18 See 13
18 Unduly proud of culture absorbing argon compound (8)
19 Setter's after place on a tabletop, it's supposed (8)
20 Impassioned express crossing eastern border (8)
22 Child in native American child-minding establishment (6)
23 Executive's performance.... (6)
24 .... in the manner directed? Yes (6)

Solution 9,410



quotas

Copper falls ... selling by fu...

Sardinia

CROSSWORD

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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American Phoenix Investment Portfolios (z)

Foreign & Colonial Portfolios Fd Sicav(z)

Frontrunner I (n)

Nikko Global Umbrella Fund

Aetna International Umbrella Fund - Contd.

Emerging Markets Recovery Fund SICAV

The European Asset Value Fund

FMG Mir SICAV

Fidelity Investment (CI) Ltd

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equity Fund Managers

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		122		122¼	120¼	1,915	2.9	⊕
Barlow	†	884	+½	872	857	1,334	2.2	13.7
Gold Flds Prop R	†	176	-10¼	186½	120	18.8	4.9	13.5
SA Brews		£18½xd	+½	£19½	£13¾	5,442	2.1	⊕
Standard Bank		£28½	+½	£28½	£21	3,499	1.9	⊕
Tiger Oats	†	1160xd	+20	1160	770	1,083	1.7	21.1
Tongaat-Hulett		740xd	+1	842	676¼	718.4	2.6	⊕

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' basis.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 21(4)(a) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
J Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98
Δ Dividend is paid as whole or part as a
FD (Foreign Income Dividend)
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc or scrip issue;
xr or rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

UK stocks extend rehabilitation process

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The equity market's confidence, badly dented in recent sessions by worries about next week's Budget, the possibility of another rate rise, and Wall Street's 192-point slide on Monday, recovered strongly yesterday.

Wall Street's stunning overnight rally, which saw the Dow Jones Industrial Average recoup much of the previous day's loss – it rose 153.8 – was the prime motivation behind London's performance. The US market's rather erratic performance yesterday – it opened slightly lower and slipped away before embarking on a strong run and then coming off again as London closed – had only a minor impact on UK trading.

But there was also a growing feeling around the market place that the heavy losses in UK shares since the stories of the abolition of the 20 per cent tax credit on dividend payments first impacted may have been overdone.

Some market observers are increasingly taking the view that the new chancellor might reduce the tax credit in a series of steps, of possibly 5 percentage points a year. This, it was pointed out, could mean that the market had already factored in the first year's reduction.

A firm showing by gilts, which recovered after a slow opening, also helped to galvanise share prices. The auction of £2bn of 10-year gilts was deemed satisfactory and covered 2.7 times. Two sets of trade figures, total trade for April and non-EU trade data for May, came in slightly worse than expected, but had little impact of sentiment, dealers said.

Another strong bull point for stocks was the continuing takeover buzz in the banks and insurance stocks, which showed no signs of abating. Bid stories hummed across the sector, encompassing Abbey National and Bank of Scotland among others. News that Mr Tan Sri Khoo Teck Puat had taken his long-standing stake in Standard Chartered above the 15 per cent mark saw the latter's shares build on recent strength.

And the talk that a bid might materialise for Norwich Union refused to die down.

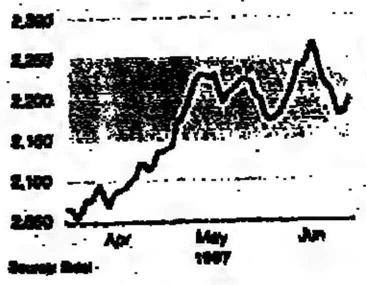
The FTSE 100 index made rapid progress after an initial opening burst of strength and eventually finished the day a net 43.7 higher at 4,640.0. Over the past two days the index has recouped 64.2, or 1.4 per cent.

The concentration of activity in the leaders meant that the second-liners and smaller stocks once again took a back seat, substantially underperforming the front-line stocks. Both managed small gains, however. The FTSE 250 moved up 6.2 to 4,453.5 and the FTSE SmallCap 3.8 to 2,238.2.

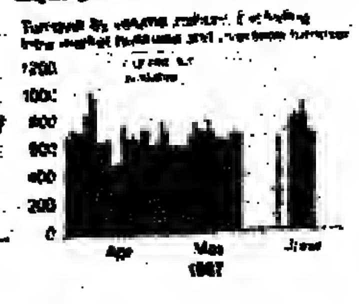
Wall Street's big gains imparted substantial strength to all the market's US favourites, which included the oil stocks. They were also helped by a feeling that all the bad news in the sector is already in the prices. Drug stocks, keenly sought by American funds, also made good progress.

Turnover kept up with recent good levels, eventually reaching 926m shares at 6pm.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4640.0	+43.7
FTSE 250	4453.5	+6.2
FTSE 350	2244.0	+17.7
FTSE All-Share	2199.97	+16.37
FTSE All-Share yield	3.53	3.55
FT 30	[illegible]	[illegible]
FTSE Non-Fins p/e	[illegible]	[illegible]
FTSE 100 Fut Jun	[illegible]	[illegible]
10 yr Gilt yield	[illegible]	[illegible]
Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1 Gas Distribution .... +4.6
2 Pharmaceuticals .... +2.1
3 Oil Exploration .... +1.9
4 Banks: Retail .... +1.4
5 Oil: Integrated .... +1.1

Worst performing sectors

1 Tobacco .... [illegible]
2 Building & Construction .... [illegible]
3 Transport .... [illegible]
4 Engineering: Vehicles .... [illegible]
5 Diversified Industrials .... [illegible]

Buyers move in for BG

By Peter John and Martin Brice

Funds holding the demerged components of the old British Gas utility were delighted with yesterday's boost to their assets.

A feeling that managements of both Centrica and BG have got to grips with regulatory and competitive problems saw both dominate the Footsie yesterday on combined turnover of 45m shares. The two stocks represent about 1.25 per cent of the overall market and the combined closing price of 307p is the highest for two years.

Centrica headed the list of outperformers with a rise of 4 to 76½p as analysts continued to take an enthusiastic view following the recent company presentation.

NatWest reiterated its positive stance yesterday and UBS upgraded the stock to 'buy' from 'hold' citing Centrica management's confidence that the company can maintain profit margins.

Centrica, the gas supply business, is aiming to settle almost one-third of its long term take-or-pay contracts with North Sea producers within the next 12 months. And HSBC James Capel has been telling clients that the implicit reduction in the take-or-pay liability was worth up to 7p on the share price.

Meanwhile, BG jumped 9½ to 231p with optimism following last week's regulatory ruling over pipeline fees compounded by comments by the chancellor of the exchequer yesterday.

Analysts believed the chancellor was hinting that the long-awaited windfall tax on profits might now come out at £3bn as opposed to the £5bn previously feared.

Enterprise firmed 14 to 689½p, pushed by a certain amount of takeover enthusiasm fuelled by last week's bid of $6.4bn by Union Pacific for Pennzoil.

Enterprise is involved with Pennzoil in the Gulf of Mexico and the offer served to remind the market of the potential for further consolidation despite current high valuations.

Banks buoyant

Barclays led a buoyant banking sector higher with a gain of 44 to £12.14½.

Merrill Lynch was said to have been pointing out that the shares had missed out on the recent sector rally.

But, bubbling underneath, is a growing feeling that the bank is about to make a substantial acquisition.

Some specialists pointed out that the bank has a great deal in common with National Westminster which was recently revealed to have shown interest in Abbey National. Now that NatWest has backed off to put its own house in order, Barclays might be tempted to make a pitch for the mortgage and life business that Abbey represents.

Abbey itself was a strong performer. The shares jumped 26 to 828p helped by expectation that a deal with Cater Allen, the discount house, could be announced today.

Elsewhere in the sector Bank of Scotland lifted 14 to 399p and Halifax 13 to 773¼p. Woolwich, which floats on July 7, was quoted at 302p to 310p by financial bookmakers.

Royal Bank of Scotland fell 22¼ to 575½p against the trend in the market and sector as HSBC was quoted as saying it had "absolutely no plans" to make a bid for the group.

The comment was in response to a press story earlier in the week which revived old takeover stories. Also, there was a surprise announcement late in the afternoon that Peter Woods, who founded and created the Direct Line insurance subsidiary, is to leave the group.

Bus company shares beat the overall decline in the transport sector and rose on the news that Mr Gavin Strang, transport minister, had announced a review of the industry aimed at increasing bus use. However, the rise was not entirely welcomed by some analysts, who said it highlighted the exposure of the sector to regulatory and political events.

Analysts have been saying the bus market is reaching maturity, and the rail side is likely to ba subject to an increasingly tight regulator environment as the rail regulator seeks greater investment. Furthermore, transport now comes within the remit of Mr John Prescott, the deputy prime minister, so regulatory matters may assume a higher political profile than under the previous government.

FirstBus seems to remain the favourite in the sector, with positive notes recently from Dresdner Kleinwort Benson and NatWest Securities. FirstBus was up 11½ at 212½p, while Stagecoach firmed to 636p and Go-Ahead Group rose 2½ to 434p. However, National Express, in which the bus side plays a smaller part, gave up 4 to 468½p.

Mr Matthew Marchant at NatWest Securities said the shares had been oversold. The bus companies have outperformed the market in the past year although all of them declined in the run-up to the general election. Since last June, FirstBus has beaten the all-share by about 8 per cent, Stagecoach by 26 per cent and Go-Ahead by 18 per cent. However, National Express has dropped 18 per cent behind the all-share in the same period.

The news flow on buses spread outside the sector. Henlys, which makes them, firmed to 455p. Dawsongroup, which leases buses, beat the transport sector fall and was static at 210p.

Elsewhere in the sector, Avis Europe was keenly sought and was up 2½ at 144p in brisk trade following its inclusion this week in the FTSE 250 index.

British Airways was off 13 at 687½p as cabin crews voted for industrial action over a pay dispute.

Railtrack shares were down 10½ to 605½p, which traders attributed to nervousness ahead of a meeting with the rail regulator today.

T&N shed 16½ to 143p after a report that a US court ruling might expose the company to larger-than-expected compensation to victims of asbestos-related diseases.

BAT Industries, the tobacco and insurance conglomerate, ran out of steam and shed 11 to 553p. NatWest Securities said that although the recent US settlement on tobacco was favourable to the industry it was unlikely to survive in its current form and the shares should be sold down to 550p.

Shares in scaffolding company SGB, floated at 150p, rose to 156p in their first day of trading. The company was floated from John Mowlem, which eased to 129p.

Dixons, the high street white and brown goods retailer, slipped back to finish the day a net 2½ off at 491p as the market responded to a report that Tesco, the food retailing giant, may be about to expand its operation to include electrical goods.

FT 30 INDEX

	Jun 25	Jun 24	Jun 23	Jun 20	Jun 19	Yr ago	*High	*Low
FT 30	2987.2	2976.5	2972.0	2972.0	3015.1	2720.7	3077.4	2668.8
Ord. div. yield	3.67	3.70	3.70	3.70	3.65	4.10	4.22	3.56
P/E ratio net	18.07	17.96	17.94	17.84	18.20	16.07	18.84	15.80
P/E ratio nil	17.88	17.78	17.76	17.76	18.02	15.98	18.45	15.71

FT 30 since compilation: high 3077.4 13/03/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2988.9	2981.8	2995.0	2993.1	2996.5	2997.2	2992.6	2995.9	2993.9	2998.2	2987.3

	Jun 25	Jun 24	Jun 23	Jun 20	Jun 19	Yr ago
SEAQ bargains	51,094	48,380	53,662	49,805	44,837	28,787
Equity turnover (£m)†	–	NA	2717.6	4112.9	2441.5	1662.0
Equity bargains†	–	NA	47,323	40,747	40,825	32,758
Shares traded (ml)†	–	NA	753.5	937.5	684.1	630.9

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	947	Total Highs	59	Total contracts	37,784
Total Falls	534	Total Lows	99	Calls	25,572
Same	1,592			Puts	12,212

Jun 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4650.0	4684.0	+36.0	[illegible]	[illegible]	[illegible]	[illegible]
Dec	4713.0	4722.0	+38.0	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4524.0	+8.0			[illegible]	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 2,494 Puts 2,103

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 15,749 Puts 4,843 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	Low	Stock	Close price p	+/-	Net div.	Div cov	Grs yld	P/E net
§	F.P.	95.9	1200	782½	Aston Villa	837½		R8.8	1.8	1.3	46.0
	F.P.	12.9	102	42½	Caradon 8	80		-	-	-	-
*	F.P.	1,970	312½	270½	Gallaher	285½	+1½	19.25	1.4	8.4	17.9
§140	F.P.	11.2	147½	98½	Heart of Midlthn	110½		-	-	-	-
§120	F.P.	10.3	127½	124½	†Highland Timber	124½		-	-	-	-
100	F.P.	3.25	125	102½	†Integrated As Mg	125		-	-	-	-
§	F.P.	3.86	119½	112½	Longbridge Intl	117½		-	-	-	16.4
290	F.P.	6,292	357½	316½	Norwich Union	326½	+½	1106	1.6	4.1	17.3
§185	F.P.	118.7	197½	195½	PowderJect Pharm	197½	+1	-	-	-	-
100	F.P.	33.1	110½	99½	Raeburne Martin	110		-	-	-	-
§	F.P.	58.0	227	204½	Royalblue Grp	206		15	2.6	0.9	52.3
§100	F.P.	7.86	120½	110½	†SBS Group	110½		L2.4	2.0	2.7	19.4
§150	F.P.	117.0	157½	155½	SGB Group	156		L4.4	2.8	3.5	12.7
§100	F.P.	22.5	112½	107	Toppa Tiles	112½		-	-	-	11.8
§3	F.P.	5.04	4	3½	Versailles Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	Low	Stock	Closing price p	+or-
200	Nil	16/7	24½pm	18½pm	Benchmark Group	18½pm	-1½
156	Nil	9/7	15½pm	1½pm	Century Inns	1½pm	
‡	Nil	15/7	½pm	¼pm	Millwall Hldgs	¼pm	
75	Nil	11/7	7½pm	6pm	Waterfall Hldgs	6pm	

pm: premium.

FTSE GOLD MINES INDEX

	Jun 24	% chg on day	Jun 23	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	1414.34	-0.6	1422.07	2087.18	2.38	–	2130.00	1414.14
■ Regional Indices								
Africa (14)	1500.54	-0.4	1505.95	2758.55	5.80	23.96	2917.88	1500.54
Australasia (6)	1844.59	-0.4	1851.80	2478.36	3.14	18.80	2478.36	1844.59
North America (11)	1369.48	-0.7	1379.29	1843.49	1.05	58.42	1884.08	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. CONSTITUENT CHANGES WITH EFFECT 1/7/97: Addition: Newmont Mining (North America). Deletion: Newmont Gold (North America) (Owner and changes). Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 25	Day's chge%	Jun 24	Jun 23	Jun 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4640.0	+1.0	4596.3	4575.8	4583.9	3895.5	3.51	2.04	17.46	91.23	1981.66
FTSE 250	4453.5	+0.1	4447.3	4454.8	4485.0	4365.3	3.72	1.61	20.85	94.45	1863.76
FTSE 250 ex IT	4458.2	+0.1	4455.0	4464.1	4493.4	4403.4	3.87	1.64	19.89	97.37	1871.21
FTSE 350	2244.0	+0.8	2226.3	2219.0	2229.1	1868.0	3.55	1.95	18.03	44.77	1957.95
FTSE 350 ex IT	2243.4	+0.8	2225.7	2218.4	2228.2	–	3.58	1.96	17.80	12.34	1003.85
FTSE 350 Higher Yield	2178.1	+0.6	2165.1	2161.7	2169.6	1788.1	4.80	1.78	14.80	53.16	1610.93
FTSE 350 Lower Yield	2314.5	+1.0	2292.5	2281.8	2293.6	1850.8	2.52	2.26	22.03	35.75	1653.92
FTSE SmallCap	2238.22	+0.2	2234.36	2248.36	2261.09	2209.08	3.16	1.72	22.92	37.66	1901.23
FTSE SmallCap ex IT	2218.29	+0.1	2214.62	2227.24	2240.69	2209.70	3.43	1.80	20.28	40.35	1898.45
FTSE All-Share	2199.97	+0.7	2183.60	2177.79	2167.93	1853.24	3.53	1.94	18.30	43.39	1948.05
FTSE All-Share ex IT	2198.86	+0.8	2182.43	2176.41	2186.25	–	3.57	1.95	17.93	12.06	1001.28

FTSE Actuaries Industry Sectors

	Jun 25	Day's chge%	Jun 24	Jun 23	Jun 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4412.96	+1.0	4368.02	4357.41	4366.16	3479.57	3.46	2.01	17.96	86.75	1976.91
12 Extractive Industries(5)	4496.01	+0.1	4489.82	4433.46	4425.12	4275.85	3.50	2.36	14.98	104.80	1374.28
15 Oil, Integrated(3)	4538.80	+1.1	4480.70	4498.58	4495.37	3531.24	3.68	1.95	17.45	94.47	2090.84
16 Oil Exploration & Prod(12)	3718.87	+1.9	3649.45	3649.79	3689.83	2494.58	1.56	2.21	36.29	37.61	2277.04
20 GEN INDUSTRIALS(267)	1918.19	.....	1918.93	1927.70	1939.60	2019.52	4.16	1.67	18.05	41.52	1095.93
21 Building & Construction(35)	1371.57	-0.5	1379.04	1384.18	1391.08	1187.96	3.21	1.86	20.88	25.63	1193.44
22 Building Matls & Merchs(30)	1858.87	+0.3	1853.17	1864.36	1675.14	1670.05	4.32	2.78	10.41	41.69	982.37
23 Chemicals(26)	2429.14	+0.8	2410.32	2405.80	2453.78	2416.51	4.35	1.48	19.44	64.32	1211.98
24 Diversified Industrials(16)	1289.23	-0.5	1295.28	1297.62	1312.73	1575.68	5.65	1.99	11.12	37.16	764.19
25 Electronic & Elect Equip(38)	2004.80	-0.3	2011.37	2035.45	1998.34	2271.29	3.94	1.53	20.75	17.88	1073.59
26 Engineering(68)	2549.09	.....	2550.34	2561.94	2589.55	2448.80	3.33	2.26	16.60	50.24	1606.25
27 Engineering, Vehicles(13)	2875.81	-0.5	2889.54	2899.59	2894.93	3020.77	3.57	‡	‡	54.73	1548.32
28 Paper, Pckg & Printing(27)	2058.60	-0.2	2062.33	2078.12	2086.86	2574.05	5.10	1.84	13.28	58.25	899.01
29 Textiles & Apparel(14)	1061.48	+0.1	1060.09	1071.30	1072.21	1365.87	6.59	1.00	19.04	41.78	898.64
30 CONSUMER GOODS(85)	4544.72	+1.0	4498.38	4507.57	4538.29	3538.92	3.40	1.80	20.42	88.91	1755.52
32 Alcoholic Beverages(7)	3269.32	.....	3270.00	3290.97	3300.25	2714.49	4.05	1.88	16.43	76.76	1243.17
33 Food Producers(25)	2933.51	+0.8	2911.64	2915.08	2921.59	2514.04	3.78	1.84	17.95	87.77	1389.85
34 Household Goods(17)	2963.15	+0.1	2961.18	2960.99	2961.88	2628.83	3.61	2.31	16.40	58.44	1220.58
36 Health Care(15)	2251.09	+0.1	2248.97	2245.43	2240.42	2092.86	2.72	1.67	27.57	39.82	1416.11
37 Pharmaceuticals(18)	7358.10	+2.1	7204.77	7211.63	7234.26	5109.97	2.51	1.71	29.05	104.77	2583.05
38 Tobacco(3)	4574.14	-1.5	4644.48	4664.39	4850.42	4210.03	6.16	1.81	11.23	158.73	1220.59
40 SERVICES(272)	2589.97	+0.3	2582.85	2588.64	2606.81	2521.72	3.08	1.98	20.48	47.80	1398.30
41 Distributors(30)	2717.79	-0.3	2726.87	2725.28	2748.81	2891.32	3.43	1.94	18.78	52.52	1041.84
42 Leisure & Hotels(31)	3279.86	-0.3	3288.24	3262.78	3275.99	3255.21	2.84	1.82	24.23	82.16	1616.85
43 Media(44)	4077.22	+0.2	4069.55	4108.89	4127.86	4193.32	2.44	1.91	26.85	80.16	1514.58
44 Retailers, Food(15)	2080.48	+0.9	2062.75	2052.66	2079.80	2003.23	3.93	2.26	14.11	51.26	1388.64
45 Retailers, General(53)	2050.48	+0.7	2037.08	2032.28	2055.16	2074.52	3.43	2.06	17.71	46.82	1224.99
47 Breweries, Pubs & Rest.(22)	3096.17	+0.5	3079.97	3104.94	3126.35	3148.23	3.61	2.16	16.82	52.98	1544.05
48 Support Services(54)	2980.49	+0.4	2967.82	2993.80	3013.97	2428.26	1.74	2.70	26.60	22.83	1939.25
49 Transport(23)	2765.48	-0.5	2780.11	2786.05	2785.62	2370.86	3.61	1.38	25.16	56.36	1206.00
60 UTILITIES(31)	2913.93	+1.1	2883.43	2857.38	2854.69	2299.93	4.84	1.49	17.28	58.37	1348.38
62 Electricity(9)	3099.03	+0.1	3094.64	3076.91	3085.92	2538.79	5.73	1.99	10.95	108.23	1759.81
64 Gas Distribution(2)	2067.47	+4.6	1976.62	1949.72	1926.17	1212.41	6.90	‡	‡	69.13	1180.88
66 Telecommunications(8)	2406.88	+1.1	2381.64	2354.49	2350.10	1947.12	3.68	1.68	20.22	13.53	1142.99
68 Water(12)	2474.30	-0.4	2483.23	2477.80	2489.87	2128.15	6.86	2.29	8.20	74.51	1473.18
69 NON-FINANCIALS(675)	2220.12	+0.8	2205.87	2208.35	2216.73	1976.93	3.66	1.83	18.68	43.55	1765.41
70 FINANCIALS(106)	4261.61	+1.2	4230.17	4171.03	4187.30	2927.87	3.28	2.39	15.94	91.08	1933.90
71 Banks, Retail(10)	6588.16	+1.4	6494.96	6360.89	6384.58	3888.59	2.97	2.61	16.12	129.00	2255.01
73 Insurance(18)	1683.15	+0.9	1672.96	1670.97	1671.05	1428.68	5.16	2.56	9.45	54.89	1345.52
74 Life Assurance(7)	4673.88	+1.1	4624.58	4607.23	4634.33	3326.42	3.77	1.96	16.92	121.00	2041.58
77 Other Financial(29)	3140.97	+0.3	3130.64	3136.52	3164.76	2640.22	3.36	2.01	18.47	61.10	1671.54
79 Property(44)	1959.23	+1.0	1940.17	1944.43	1950.13	1505.81	3.29	1.33	28.63	34.45	1260.27
80 INVESTMENT TRUSTS(127)	3406.18	+0.6	3384.96	3385.69	3414.94	3143.01	2.22	1.17	48.19	43.90	1222.47
89 FTSE All-Share(910)	2199.97	+0.7	2183.60	2177.79	2187.93	1853.24	3.53	1.94	18.30	43.39	1948.05
105 FTSE All-Share ex IT(783)	2198.89	+0.8	2182.43	2176.41	2186.25	–	3.57	1.95	17.93	12.06	1001.28
FTSE Fledgling	1259.80	+0.1	1258.39	1267.69	1276.70	1260.78	3.17	0.79	51.62	21.43	1362.47
FTSE Fledgling ex IT	1264.38	-0.8	1263.75	1274.21	1283.81	1275.40	3.52	0.74	46.03	21.22	1345.82
FTSE AIM	1051.7	-0.1	1053.2	1057.2	1058.2	–	1.04	1.19	80.00†	3.59	964.06

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4623.3	4630.5	4634.1	4630.5	4637.4	4638.5	4629.9	4637.4	4638.6	4640.5	4622.4
FTSE 250	4458.6	4460.5	4458.2	4457.2	4455.9	4456.4	4456.4	4456.4	4453.5	4460.9	4453.3
FTSE 350	2237.9	2240.9	2242.2	2240.6	2243.2	2243.6	2240.3	2243.2	2243.4	2244.1	2237.7
FTSE SmallCap	2236.81	2237.75	2238.54	2238.76	2239.16	2239.38	2239.43	2239.04	2238.14	2239.50	2236.81
FTSE All-Share	2194.38	2197.16	2198.38	2196.97	2199.33	2199.76	2198.70	2199.37	2199.48	2200.13	2194.29

Time of FTSE 100 Day's high: 4:21 PM Day's low: 9:20 AM. FTSE 100 1997 High: 4640.0 (25/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 4:21 PM Day's low: 9:20 AM. FTSE All-Share 1997 High: 2200.00 (25/06/97) Low: 1989.78 (07/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Amendment: Quality Software remains in (FTSE Fledgling) Quality Care Homes deletion from (FTSE Fledgling). Please note values for Electricity, Utilities and Non-Financial for 24/06/97 have been amended.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. ‡ Indicates a FTSE 100 index constituent. [illegible]

CONTRACTS & TENDERS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

RATIOS

	June 20	Jun 13	Jun 6	Year ago
Dow Jones Ind. Div. Yield	1.65	1.64	1.70	2.17
	Jun 18	Jun 11	Jun 4	Year ago
S & P Ind. Div. yield	1.59	1.62	1.69	1.87
S & P Ind. P/E ratio	24.27	24.13	23.32	22.22

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

Volume (million)	Jun 24	Jun 23	Jun 20
New York SE	542.648	498.025	658.459
Amex	25.362	24.825	28.818
NASDAQ	548.309	563.010	523.720
NYSE			
Issues Traded	3,388	3,375	3,386
Rises	1,793	814	1,109
Falls	965	1,781	1,485
Unchanged	630	780	792
New Highs	221	196	288

INDEX FUTURES

TOKYO - MOST ACTIVE STOCKS: Wednesday, June 25, 1997

	Stocks Traded	Closing Prices	Change on day
Mitsui Eng & Shp	23.2m	264	+42
Fujitsu	12.2m	1640	+50
NGK Insulators	11.0m	1260	+60
Nippon Steel Cp	10.2m	361	+10
Sakura Bank	8.8m	885	+34
Hitachi	7.1m	1330	
NKK Corp	7.0m	238	+4
Sumitomo Mtl Ind	6.6m	318	+3
Nippon Credit Bk	6.4m	256	+9
Sumitomo Bank	6.2m	1850	+80

FT Free Annual Reports Service

4 pm close June 25

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32⅞	24⅛	AAR	0.48	1.5	24	2456	31⅞	31¼	31⅝	-½
43⅛	33⅛	AMP	1.04	2.5	33	4142	42⅛	40¾	41⅜	-¼
103¼	78¼	AMR			7	4325	93⅛	91[illegible]	92[illegible]	
37⅞	30⅞	ASA	1.20	3.8	26	441	31⅛	31	31[illegible]	+[illegible]
68⅛	49¾	AbbotL	1.08	1.6	26	10563	60	66⅞	67[illegible]	-1
18⅝	14⅛	Abitibi Pr	0.40	2.3	0	20	17⅛	17¾	17¾	
26	17⅞	ABM Ind	0.40	2.1	17	237	19¼	18[illegible]	18[illegible]	-[illegible]
23	17¾	Acptcetik			11	105	21[illegible]	31¼	21[illegible]	-[illegible]
70⅞	58⅛	ACE Ltd	0.88	1.2	11	1014	u72½	70¼	7[illegible]	+2¼
10¾	10	ACM Gvt In	0.90	8.7	11	420	10[illegible]	10[illegible]	10⅜	
7¾	7	ACM GvOpp	0.63	8.3		110	7⅝	7[illegible]	7[illegible]	
9⅞	9¼	ACM Man	0.90	9.1		180	u9⅞	9[illegible]	9⅞	
10⅞	6¾	Acme Elect				37	6⅞	9¼	6¾	
20	15	Acme Mills				29	16⅝	16½	16½	-¼
19¾	14	ACNielsen			34	2349	19⅛	18⅝	19	+¼
48	27¼	Acordia	0.80	2.0	19	60	39[illegible]	39⅞	39[illegible]	+[illegible]
29¾	21⅛	Acuson				805	24	23	23[illegible]	-[illegible]
22⅞	19⅞	Adams Exp	0.55	2.4	1	125	u22⅞	22¼	22⅞	
49½	24⅞	AdvMic				19806	38¼	37¼	38[illegible]	+[illegible]
27½	10⅞	Advest Grp	0.12	0.5	17	421	24	23½	23⅝	-⅛
16[illegible]	11⅛	Advo Inc			20	362	u16[illegible]	16[illegible]	16[illegible]	-[illegible]
76⅝	61⅛	Aegon	1.31	1.9	19	18654	70[illegible]	70[illegible]	70¼	-½
5⅛	3⅞	Aeroflex				1516	4[illegible]	4⅞	4⅝	+⅛
49⅞	33	Aero-V	0.80	1.7	14	1816	48[illegible]	42[illegible]	48[illegible]	+[illegible]
74¾	48	AES Corp				26	70⅞	70⅞	70⅞	+½
112⅞	73	Aetna	0.80	0.7	60	6003	108½	106⅞	107[illegible]	-1[illegible]
51⅞	37½	Aflac	0.48	0.9	10	1382	51	49⅞	50¼	+[illegible]
34⅞	19¼	AGCO	0.04	0.1	15	26	33[illegible]	33[illegible]	33[illegible]	+[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

4 pm close June 25

NYSE PRICES

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sh-splits. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close June 25

AMEX PRICES

4 pm close June 25

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.375	-0.5	56350	8.25	3.375	Innogenetics	US$11.5		191160	12.75	10.375
Artwork Systems	US$10.25		32450	11.125	9.5	Lernout & Hauspie	US$27.125	+1.5	46105	26.5	25
Chemunex	FFr15		500	18	14	Mercer Internatl.	US$9.625	+0.25	8	11.75	8.125
Dr Solomon's ADS	US$23.875	-0.5	0	26.5	16.875	PixTech	US$3.875		0	6.125	3.875
Esprit Telecom ADS	US$7.875		0	12.25	5.375	Schoeller-Bleckmann	Sch1010	+5	57830	1020	300

Prices for 25/6/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

FINANCIAL TIMES Thursday June 26 1997

Dow marks time in moderate turnover

AMERICAS

After two days of violent swings, Wall Street overcame early weakness to edge higher at midsession in moderate turnover, *writes John Labate in New York.*

The Dow Jones Industrial Average was a mere 4.30 higher at 7,762.36 by midday while the broader Standard & Poor's 500 index was 0.70 higher at 897.04.

Large company stocks had a mixed morning. IBM jumped $1¼ at 93\frac{1}{16}$ while Union Carbide was $¼ higher at $47¾. Hewlett-Packard nudged up $$\frac{3}{16}$ at 55\frac{1}{16}$. On the downside, Exxon had fallen $⅜ at $62¼ and International Paper declined $$\frac{11}{16}$ at $50⅞.

Tobacco stocks were also lower on uncertainty about last Friday's agreement. Philip Morris was down $1 at 43\frac{1}{16}$ and RJR Nabisco slid $$\frac{11}{16}$ at 33\frac{11}{16}$. Loews followed the trend, losing $1 at $101.

Smaller stocks had a similarly calm morning. The Nasdaq composite index, which is weighted toward technology stocks, rose 2.84 at 1,455.37, while the Russell 2000 index, based on smaller company stocks, fell 0.55 at 392.75. Custom Chrome, supplier of aftermarket motorcycle parts, surged $1¾ at $17¼, a rise of 11.3 per cent, after a favourable analyst's report.

Among technology companies, Microsoft rose $¼ at 132\frac{3}{16}$ while Intel gained $$\frac{3}{16}$ at 148\frac{1}{16}$. Compaq Computer gained $⅝ at 103\frac{1}{16}$, and networking company Bay Networks rose $$\frac{1}{16}$ at $26¼.

Gold mining companies had a good morning. Newmont Mining gained $1¼ at 38\frac{1}{16}$, and Barrick Gold surged $$\frac{11}{16}$ at $22½.

TORONTO ignored a dull start on Wall Street to push higher on the back of further strong gains for banks. At noon, the 300 composite index was up 38.34 at 6,529.50.

Bank of Nova Scotia and Royal Bank of Canada continued to gain from Tuesday's double dose of takeover news. Bank of Nova Scotia, which announced a bid for National Trustco, gained C$1.25 to C$61.30.

Royal Bank of Canada, which rose C$1.15 on Tuesday after announcing "talks" with London Insurance, put on a further 35 cents to C$63.50. Toronto-Dominion Bank added 55 cents to C$43.70. Alcan Aluminium rose 60 cents to C$48.25.

MEXICO CITY moved lower in early trading, continuing the profit-taking of the previous two days. The IPC index was off 0.99 at 4,402.46 at midsession.

Bancomer rose 22 centavos to 4.11 pesos after an upgrade from "outperform" to "strong buy" from Morgan Stanley. Telmex, spurred by further gains for its ADRs in New York, added 8 centavos to 19.08 pesos.

But the broad market lost ground. Grupo Mexico was downgraded to "hold" from "speculative buy" by local broker Serfin. The shares came off 40 centavos to 29.80 pesos.

Industrials push South Africa higher

Another strong session for industrials pushed Johannesburg's all-share index up 20.4 to 7,354, its highest level since January 1996.

Sentiment was underpinned by the overnight recovery on Wall Streeet and better-than-expected outturn for the CPI in May. "It's been a good, solid session. There was no shortage of buyers," said one broker.

Golds stayed weak with the index slipping a further 11.2 to 1,007.4 but the broad market continued to make rapid progress. The industrial index gained 45.7 to 8,669.9, a four-day advance of 216 points.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms: June 20 1997	Dollar terms: % Change over week	Dollar terms: % Change on Dec '96	Local currency terms: June 20 1997	Local currency terms: % Change over week	Local currency terms: % Change on Dec '96
Latin America	(248)	731.39	+1.7	+36.0			
Argentina	(30)	1,178.32	+0.8	+24.0	722,688.35	+0.5	+23.9
Brazil	(68)	596.71	+1.7	+50.5	2,405.98	+2.0	+56.2
Chile	(46)	806.07	−1.6	+30.0	1,347.15	−1.4	+27.7
Colombia[1]	(14)	839.19	−0.0	+32.5	1,614.82	+0.5	+43.1
Mexico	(64)	681.52	+4.2	+28.7	2,337.76	+4.2	+30.1
Peru[2]	(17)	265.64	+0.4	+35.0	429.92	−0.1	+37.6
Venezuela[3]	(9)	888.51	+5.2	+22.0	9,909.37	+5.2	+24.3
Asia	(708)	242.47	+1.7	−4.1			
China[4]	(27)	81.39	+2.9	+10.4	85.19	+2.9	+10.3
South Korea[5]	(156)	85.62	−3.0	+11.1	100.18	−3.0	+18.7
Philippines	(42)	255.27	+3.1	−13.1	325.29	+3.1	−12.8
Taiwan, China[6]	(90)	184.82	+7.0	+20.6	193.75	+7.1	+22.4
India[7]	(77)	101.58	+1.0	+28.9	129.16	+1.0	+28.9
Indonesia[8]	(49)	132.92	+1.9	+4.1	175.49	+1.9	+7.1
Malaysia	(148)	295.11	+0.9	−12.3	273.94	+1.0	−12.7
Pakistan[9]	(28)	243.42	+2.4	+24.4	447.67	+2.4	+25.2
Sri Lanka[10]	(25)	125.56	+0.6	+32.1	160.40	+0.7	+36.3
Thailand	(87)	116.88	−8.8	−46.3	122.87	−8.0	−45.5
Euro/Mid East	(265)	158.46	−0.9	+18.0			
Czech Rep	(7)	58.10	+2.6	−17.2	61.93	+1.4	−2.5
Egypt	(16)	96.30	−0.1	–	96.16	−0.1	–
Greece	(54)	340.37	−7.2	+40.4	630.89	−7.7	+55.9
Hungary[11]	(12)	271.96	+3.0	+38.2	608.12	+3.1	+58.9
Israel	(40)	129.06	+2.2	+29.1	136.40	+2.6	+36.4
Jordan	(7)	167.10	−0.3	+5.6	294.14	−0.3	+5.5
Morocco	(5)	123.18	+0.3	–	127.73	−0.1	–
Poland[12]	(30)	698.63	−3.4	−4.6	1,426.14	−3.4	+8.2
Portugal	(29)	190.67	+2.0	+30.5	228.82	+1.4	+46.7
Russia	(15)	138.95	+7.6	–	143.46	+7.5	–
Slovakia	(5)	92.55	−3.7	–	95.46	−3.8	–
South Africa[13]	(63)	233.40	−1.2	+11.8	217.35	−1.1	+7.9
Turkey[14]	(58)	205.06	+2.2	+37.9	14,142.79	+2.8	+85.5
Zimbabwe[15]	(5)	580.28	−1.7	+22.6	987.16	−1.7	+28.1
Composite	(1222)	335.14	+1.1	+13.6			

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991, (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Having dribbled lower through most of April and May, the Taiwan stock market has sprung back to life in recent weeks, *writes Jeffrey Brown.* The main weighted index rose 38.24 to 8,956.41 yesterday to extend its gain this month to nearly 12 per cent.

A combination of favourable politics, rising liquidity and a positive outlook for earnings in the key electronics sector looks to have restored investor sentiment to the heady levels seen in the early part of 1997.

The leading weighted index surged from less than 7,000 to around 8,500 in the first 10 weeks of this year followed by a prolonged period of profit-taking. But the buyers have now returned in force. Last Thursday's T$251bn turnover was a record for a single session.

Electronics shares have risen steeply, lifting the 1997 price earnings ratio for the sector to around 30 times in spite of progressively upgraded profits estimates. Second quarter earnings reports will emerge next month and the betting among analysts is that they will be visibly upbeat.

Inflation – barely 1 per cent in recent months – is low and producer prices continue to contract as a result of productivity gains and low import prices. Chip spot prices have recovered strongly this year.

Taiwanese company profits tend to contain a high proportion of non-operating earnings so the onset of a results season invariably provokes question about earnings quality. And at around 35 times 1996 earnings, Taiwan is easily the most expensive stock market in Asia.

"If the market breaches 9,000 there could be a short-term test of nerve for investors. But there is no denying sentiment is riding high at the moment," said one broker.

Paris up 3% as bourses climb peaks

EUROPE

Shares in **PARIS** surged to a record high in heavy volume, helped by a strong rally for Bancaire. The CAC 40 index closed 82.68 or 3 per cent higher at 2,867.44. A quarter of the index components advanced by more than 4 per cent.

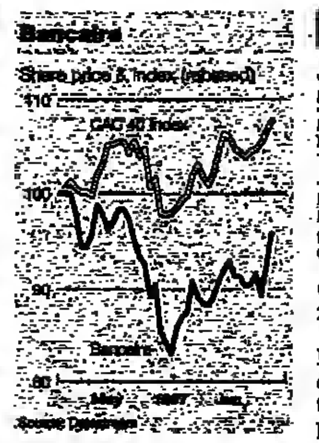
Bancaire topped the performance charts with ease, rising FFr47 or 6.8 per cent to FFr735 on the news that the retail financial services group planned to buy out the minority interests in two units for a total of FFr3bn. The move was immediately seen as earnings enhancing.

Motors were also in demand. Michelin gained FFr 17.1 or 5 per cent to FFr360.60 and Peugeot added FFr7 to FFr587 after the group's annual meeting was greeted by a collective sigh of relief by French motor analysts.

Saint Gobain put on FFr27 to FFr865 ahead of the group's annual meeting late yesterday.

AMSTERDAM pushed up to a record high helped by a good day for internationals, notably Philips. At the close, the AEX index was up 10.40 at 871.46, against 648 at the end of last year.

Philips bounced sharply on the news that it was set to launch an audio recorder, a world first, towards the end of this year. The shares



rose Fl 4.40 or 3.2 per cent to Fl 140.10.

Plans for increased US carbon fibre production sent Akzo Nobel shooting ahead to Fl 263.30, a gain of Fl 6.50 or 2.5 per cent. Fortis Amev added Fl 1.50 to Fl 83 after a downgrade by Goldman Sachs for Fortis of Belgium sparked switching into Fortis Amev.

FRANKFURT closed at an all time high as Wall Street recovered from its early losses and a spate of buying from foreign investment and domestic funds supported the market. The Ibis-indicated Dax index closed 58.45 higher at 3,819.52.

Daimler-Benz was up DM6.10 at DM141, propelled by news that it was no longer seeking a takeover of the French software house, Cap Gemini, and would sell its 24.4 per cent stake.

Volkswagen picked up DM4.60 to DM1,249.10 as the carmaker and the IG Metall trade union reached a comprehensive wage deal that gave the company a chance to cut its workforce through an innovative early retirement plan.

Lufthansa, holding its annual meeting today, rose 75pfg to DM35.71 after the airline said that it had added the Belgian carrier, VLM, to its network of alliances.

ZURICH returned to its record-setting ways as blue chips made the most of the firm dollar. The SMI index jumped 86.80 to 5,662.40, reflecting sharp gains in Nestlé, Novartis and Swiss Re.

Novartis remained in the spotlight, recouping SF72 to SFr2,338 after the profit-taking seen earlier in the week.

Swiss Re, up SFr51 at SFr2,109, led insurances as investors took a bullish view of the earnings outlook.

Zurich Insurance rose SFr14 to SFr583 on renewed rumours an announcement was imminent that it was about to buy Scudder, Stevens & Clark, the US asset manager.

At the same time, chart analysts said the shares had established a firm basis in their recent trading range which could provide the springboard to a rise to the SFr600-SFr625 level.

Nestlé was another blue chip winner as recommendations brought foreign demand on expectations that the company would benefit from weaker raw coffee prices. The shares added SFr41 to SFr1,937.

MILAN remained at an 11-year high as bonds and the lira gained ground and optimism on Italy's chances of joining the single currency at the start remained high. The Comit index rose 5.27 to 844.54 and the real-time Mibtel index added 153 at 13,469.

Eni continued to gain strongly, up L105 to L9,610, as the public offer for a third tranche of Eni shares progressed.

STOCKHOLM hit fresh peaks after Ericsson surged SKr15.50 to SKr307.5 amid reports that a leading US broker had moved the stock to the top of its best buy list. Astra gained SKr2.00 to SKr143 on more positive drug news. The general index ended 36.75 higher at 2,980.57.

HELSINKI rose to a further record as market heavyweight Nokia drove higher for the third session running, adding FMk13 at FMk398 to lift the Hex index by to 3,226.17.

MADRID powered ahead to fresh highs with banks and supermarkets bolstering the indices after positive economic data. The general index rose 9.65 or 1.6 per cent to 601.73.

Among the strongly bought banks, Popular soared Pta1,000 to Pta34,100.

Continente and Pryca, the hypermarket groups, were sharply ahead after first-quarter GDP data showed a strong rise in private consumption. Pryca was up Pta200 to Pta3,065 while its rival group picked up Pta255 at Pta3,260.

Tubacex, the steel tube maker, jumped Pta60 to Pta526 after an upbeat presentation to analysts.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 25 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2501.30	2504.59	2504.36	2505.14	2507.74	2510.28	2511.75	2511.55
FTSE Eurotrack 200	2482.73	2485.30	2486.77	2490.35	2491.71	2490.77	2491.94	2491.92

	Jun 24	Jun 23	Jun 20	Jun 19	Jun 18
FTSE Eurotrack 100	2479.83	2468.96	2463.84	2455.60	2427.88
FTSE Eurotrack 200	2464.87	2453.47	2461.40	2455.01	2437.50

Base value 1000 (26/10/90). Highday: 100 - 2512.00; 200 - 2491.92 Lowday: 100 - 2501.30 200 - 2482.61. † Partial.

Positive tankan helps Nikkei up 1.7%

ASIA PACIFIC

Tokyo rallied almost across the board, encouraged by New York's rebound overnight and unexpectedly strong results in the Bank of Japan's quarterly "tankan" survey of business sentiment, *writes Gwen Robinson.*

The Nikkei 225 index jumped 337.34 or 1.7 per cent to 20,679.27 after moving between 20,419.24 and 20,736.17.

The publication of the central bank's survey shortly before the market opened buoyed sentiment from the outset of trading. The survey showed that the index of corporate sentiment among leading manufacturers rose to 7 in June from 2 in the previous survey in March. Economists had widely predicted the index would slip in to negative territory.

New York's overnight rebound reinforced the positive mood, as investors showed renewed confidence in the direction of Japan's economy and pursued stocks in a wide range of sectors. Retailers, however, suffered a setback from the previous day's announcement of weak sales in May as a result of the April sales tax increase.

Volume surged from 366m shares to an estimated 512m. Advances overwhelmed declines 858 to 241 with 154 unchanged. The Topix index of all first-section stocks climbed 26.47 to 1,558.44 and the capital-weighted Nikkei 300 was up 5.59 at 302.21.

In London, the ISE/Nikkei 50 index rose 4.31 to 1,644.26.

Blue-chip exporters drew buying interest in spite of the dollar's fall to the Y113 level. Fujitsu continued its recent climb, gaining Y50 to Y1,640. TDK rose Y140 to Y8,390, Pioneer Electronic Y60 to Y2,790 and Sony Y50 to Y9,890. Leading carmakers also advanced. Toyota gained Y50 to Y3,430 and Honda Y70 to Y3,400.

Foreign investors actively bought financial issues and other domestic demand-related stocks. Banks rose nearly 3.5 per cent as a group. Industrial Bank of Japan climbed Y140 to Y1,830, Sakura Bank Y34 to Y885 and Bank of Tokyo-Mitsubishi Y60 to Y2,280. Securities houses also advanced.

Among other domestic demand-reliant sectors, shipbuilders were led up by Mitsui Engineering and Shipbuilding, up Y42 to Y264 in the day's highest volume on reports that the company will receive lucrative local government orders for its advanced incinerators.

Retailers were among the day's losers, on concerns about their mid-term earnings outlook following poor sales figures. Marui fell Y60 to Y2,210, Isetan Y40 to Y1,500 and Takashimaya Y10 to Y1,630.

In Osaka, the OSE average gained 264.52 to 21,390.46 and volume almost doubled to 43.2m shares.

HONG KONG tracked Wall Street higher and brokers forecast the market could have further to climb ahead of the handover festivities next week.

The Hang Seng index closed 174.06 higher at 15,065.02 after storming to a high of 15,200.96 in the morning session. Turnover rose to a heavy HK$22.7bn, well above Tuesday's HK$17.37bn.

HSBC Holdings, the day's most active issue, leaped to an all-time high of HK$236 before easing to close HK$5 higher at HK$233 in turnover of HK$1bn.

SYDNEY closed near its best levels as the market followed Wall Street up, and offshore demand was noted late in the day, particularly for the banking sector.

The All Ordinaries index closed 16.7 up at 2,705.1, 9.1 short of its record high of 2,714.2 set on June 20.

KUALA LUMPUR was pulled down by falls in large capitalised banking stocks on worries that domestic interest rates would remain firm. The composite index lost 7.96 to 1,069.96. Maybank fell M$1 to M$25.25 and Arab-Malaysian Merchant Bank by 40 cents to M$16.

Bucking the weak financial trend was MBf Capital which rebounded strongly from Tuesday's plunge. MBf stock rose 46 cents or 10.9 per cent to M$4.68 after falling 98 cents on Tuesday.

SEOUL was weak as bearish market prospects, prompted by shrinking customer deposits, kept investors away. The composite index closed down 8.71 at 744.99 but volume remained thin at 37.3m shares.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY JUNE 24 1997: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 23 1997: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (76)	238.14	−0.9	211.90	172.88	213.44	210.80	−0.7	3.65	240.19	213.96	175.30	215.05	212.22	240.62	188.44	204.30
Austria (24)	191.76	−0.7	170.63	139.21	171.67	171.78	−0.6	1.94	193.10	172.03	140.95	172.92	172.83	200.52	174.70	185.86
Belgium (26)	251.95	0.0	224.19	182.91	225.61	220.96	0.0	3.24	252.04	224.53	183.97	225.69	220.90	255.67	206.70	207.48
Brazil (30)	300.02	2.7	266.97	217.81	268.90	594.54	2.6	1.24	292.22	260.34	213.30	261.67	579.26	300.02	170.26	181.60
Canada (112)	208.72	0.7	185.73	151.52	187.07	210.23	0.9	1.86	207.24	184.63	151.27	185.57	208.47	212.99	164.12	180.84
Denmark (32)	390.74	−0.5	347.70	283.67	350.22	348.94	−0.4	1.45	392.72	349.87	286.66	351.66	350.37	392.72	299.79	299.79
Finland (28)	282.54	0.6	251.41	205.12	253.23	306.27	0.8	1.80	280.97	250.31	205.09	251.60	303.55	282.54	186.67	192.07
France (90)	227.78	0.7	202.67	165.35	204.14	207.95	0.9	2.73	226.24	201.55	165.14	202.58	206.23	232.34	188.94	193.85
Germany (59)	217.54	0.0	193.57	157.93	194.97	194.97	0.1	1.45	217.59	193.85	158.83	194.85	194.65	218.33	158.70	171.09
Hong Kong (66)	528.43	−0.7	470.22	383.63	473.62	525.41	−0.7	2.88	532.19	474.08	388.41	476.49	529.32	538.98	407.55	426.56
Indonesia (27)	246.02	−1.3	219.92	178.60	220.50	367.04	−1.2	1.67	249.30	222.10	181.97	223.24	371.84	–	–	–
Ireland (17)	350.64	0.2	312.02	254.56	314.28	326.19	−0.1	2.90	350.05	311.85	255.51	313.45	328.37	354.64	270.06	288.88
Italy (59)	97.52	−0.1	86.78	70.80	87.41	122.70	−0.2	2.06	97.67	87.02	71.30	87.46	122.80	97.67	73.26	81.99
Japan (485)	137.03	0.7	121.93	99.48	122.82	99.48	0.1	0.79	136.08	121.23	99.33	121.85	99.33	158.25	107.57	158.25
Malaysia (107)	514.80	−1.0	458.10	373.74	461.41	499.74	−0.9	1.37	519.84	463.12	379.45	465.49	504.18	660.85	510.10	664.78
Mexico (27)	1574.84	−0.3	1401.36	1143.30	1411.50	13674.06	−0.9	1.36	1580.28	1407.84	1153.49	1415.06	13799.03	1582.64	1110.35	1195.04
Netherland (19)	399.44	−0.2	355.44	289.88	358.01	353.70	−0.1	2.20	400.26	356.58	292.18	358.41	353.89	400.26	279.88	295.09
New Zealand (14)	91.65	−0.7	81.56	66.54	82.15	71.19	−0.8	4.04	92.32	82.25	67.39	82.67	71.75	96.60	79.04	79.47
Norway (41)	311.44	0.5	277.13	226.10	279.14	306.18	0.4	2.01	309.95	276.13	226.24	277.55	304.87	321.23	246.04	254.86
Philippines (22)	166.64	−0.1	148.29	120.98	149.36	219.04	−0.1	0.85	166.80	148.59	121.75	149.36	219.24	–	–	–
Singapore (42)	387.82	−0.1	345.10	281.55	347.60	255.48	−0.1	1.19	388.39	346.01	283.50	347.78	255.82	448.01	380.08	421.00
South Africa (44)	362.46	0.5	322.53	263.14	324.87	356.58	0.5	2.43	360.79	321.41	263.34	323.06	354.69	370.12	301.49	361.43
Spain (35)	263.70	−0.2	234.65	191.44	236.35	290.61	−0.1	2.27	264.29	235.45	192.91	236.66	291.17	264.29	171.91	182.94
Sweden (49)	476.29	0.4	423.83	345.79	426.89	544.02	0.5	1.90	474.16	422.44	346.12	424.61	541.40	476.29	334.35	358.18
Switzerland (35)	312.85	−0.3	278.38	227.12	280.40	278.79	−0.1	1.20	313.84	279.60	229.08	281.03	279.05	313.84	231.69	239.65
Thailand (43)	52.48	−3.0	46.70	38.10	47.04	52.78	−3.4	5.93	54.13	48.23	39.51	48.47	54.63	172.92	47.55	168.44
United Kingdom (212)	302.16	0.5	268.88	219.36	270.82	268.88	0.4	3.76	300.72	267.91	218.51	269.28	267.91	308.21	228.89	231.73
USA (647)	362.96	1.9	322.98	263.51	325.32	362.96	1.9	1.69	356.22	317.35	260.02	318.96	356.22	383.96	254.79	272.07
Americas (816)	331.98	1.9	295.41	241.01	297.55	279.69	1.6	1.88	326.02	290.44	237.97	291.93	274.69	332.73	233.09	246.54
Europe (725)	269.34	0.2	239.67	195.53	241.40	248.29	0.2	2.59	268.81	239.48	196.22	240.71	247.72	269.34	204.71	209.57
Nordic (150)	406.61	0.3	361.82	295.19	364.44	402.52	0.4	1.83	405.32	361.09	295.85	362.94	400.90	406.91	291.45	305.46
Pacific Basin (882)	155.28	0.3	138.19	112.73	139.19	113.81	−0.1	1.25	154.75	137.87	112.96	138.57	113.88	170.85	127.18	170.85
Euro-Pacific (1608)	202.87	0.3	180.52	147.28	181.83	164.54	0.1	1.99	202.34	180.26	147.70	181.19	164.38	203.07	179.55	186.87
North America (759)	353.39	1.8	314.46	256.56	316.74	352.79	1.8	1.70	347.02	309.15	253.30	310.73	346.40	354.37	248.65	265.20
Europe Ex. UK (514)	245.02	0.0	218.03	177.88	219.61	230.73	0.2	1.96	244.92	218.19	178.77	218.31	230.36	245.02	185.66	192.19
Pacific Ex. Japan (397)	313.42	−0.8	278.89	227.53	280.91	275.49	−0.7	2.71	315.84	281.37	230.54	282.82	277.51	320.65	268.97	268.88
World Ex. US (1821)	206.55	0.3	183.80	149.95	185.13	171.34	0.2	1.98	205.91	183.45	150.30	184.39	171.08	206.71	178.94	189.09
World Ex. UK (2256)	251.92	1.1	224.17	192.89	225.79	221.84	1.0	1.64	249.18	221.97	181.87	223.11	219.58	252.00	198.58	212.17
World Ex. Japan (1983)	317.57	1.1	282.59	230.55	284.64	306.64	1.1	2.05	314.07	279.80	229.25	281.23	303.21	317.57	233.10	244.97
The World Index (2468)	256.29	1.1	228.06	186.06	229.71	226.37	1.0	1.84	253.63	225.96	185.14	227.12	224.20	256.29	202.22	213.97

CONSTITUENT CHANGE WITH EFFECT 1/7/97: Share weighting change: ENI (30.81% to 43.51%) (Italy). Latest prices were unavailable for this edition.

Landmark retirement deal at VW

By Andrew Fisher in Frankfurt

The German motor company Volkswagen has agreed an early retirement and two-year wage deal with the big IG Metall trade union which could open the way for further such agreements intended to help younger people eoter the workforce.

VW's 95,000 workers at six plants in west Germany will receive a 1.5 per cent pay rise in August, with a further 2.5 per cent in August, 1998. The early retirement plan could affect about 10,000 employees in the next five years, with VW making up part of their lost income.

Mr Klaus Zwickel, head of IG Metall, called the scheme "an excellent example of a socially acceptable contract betweeo geoerations". However, Mr Stefan Schneider, economist at Paribas Capital Markets, said the deal was "generous", reflecting VW'a financial strength, and oot necessarily applicable elsewhere. The German employers' federation also said smaller companies could not finance such a deal.

It follows the ending of previous early retirement arrangements in Cermany under which the government bore much of the cost. The accord is also the latest to show a greater move towards labour flexibility – mainly through integration of Saturday working in normal shift patterns – at a time of high unemployment, though VW said it had achieved less than it wanted in this direction.

The Bayer chemical concern has just signed a cost-cutting deal with its workforce in return for a promise to avold heavy job losses before the year 2001. Ford of Germany also agreed a cost-redoctlon agreement in return for investment commitments.

Under the VW retirement deal, employees will be able to continue working while receiving 85 per cent of net pay from the age of 55 to 57 and six months. After then, they will stop work but still receive 85 per cent of pay until 60 when they retire early. VW will top up penslon contributions.

The plan, backdated to the start of 1997, will cost DM150,000 ($87,000) for each worker involved. It will enahle the company to employ all the 1,200 apprentices lt takes on yearly. Employees will also receive a DM500 bonus.

Mr Stephen Reitman, motors analyst at Merrill Lynch, said VW had struck a balance between the need for flexibility and moderate pay rises and its desire to agree an acceptable retirement deal.

Japan's prime minister Ryutaro Hashimoto welcomed to The Hague yesterday by his Dutch counterpart Wim Kok for talks on relations with the European Union Reuter

'Grain barons' warned as annual farm price package is agreed

EU ministers throw out plan to cut aid for cereal growers

By Neil Buckley in Luxembourg

European Union farm ministers yesterday threw out plans to cut aid to cereal farmers to fund support for the beef sector, but warned the "grain barons" that their generous subsidies would be under the spotlight in the coming overhaul of EU farm policy.

The annual farm price package, agreed after three daya of talks, excluded a proposal from Mr Franz Fischler, the farm commissiooer, to cut arable aid by Ecu1.4bn ($1.6bo) oext year, after four-fifths of EU states rejected it. But the final text implicitly accepted the Commission's claim that grain farmers were over-compeosated by Ecu8.5bn during the past four years for price falls that never materialised, and that reform was overdue.

"The council recognises that the level of compensatory payments for arable crops since the 1992 [agricultural] reform has not been amended to take account of market developments," the agreement said. "Market prices have been higher than foreseen."

Ministers uodertook to "address this matter in the context of the forthcoming discussions" oo farm reform. Mr Jacques Santer, Commission president, will present proposals for revamping the Union's Ecu41bn-a-year common agricultural policy next mooth, before consultations begin in the autumn.

In a sign of the sensitivity surrounding the issue, however, Germany managed to keep out of the final text a planned reference to Brussels' call for arable cuts as "premature" - arguing that this presupposed an eventual aid reduction.

Mr Jack Cunningham of the UK, who, with Sweden and Denmark, was one of only three ministers to back Mr Fiachler, welcomed the commitment to return to the matter. "The issue remains oo the table," he said. "A decision is going to have to be taken."

Mr Fischler had called for the cut in cereal aid to fund an Ecu1.3bn programme to belp beef farmers hit by the "mad cow" crisis. It was unclear last night where the beef fundlng would now come from. Finance mioisters, who will debate the EU budget next month, may call for cuts across the board in all farm payments, or take the money from export subsidies to farmers.

The arable aid payments, fixed in 1992, were intended to compensate farmers for expected price falls, hut world cereal shortages have kept prices high. Smaller farmers complain that most of the money goes to large, wealthy "grain barons". Brussels estimales that 80 per ceot of subsidies go to 20 per cent of farmers.

A UK minister revealed last week that one British grain farmer received £2m in EU aid last year, £230,000 of it for land set aside, or compulsorily uncultivated.

Some officials suggested tbat despite Mr Fischler's defeat this week, a rethink of the system was now inevitable. "We have jemmied open the door to reform," said one.

Poles aim to slash next year's budget deficit

By Christopher Bobinski in Warsaw

Poland's government, concerned abont a risiog trade deficit which is set to reach $12bn this year, is aiming to slash its 1998 budget deficit, Mr Marek Belka, the finance minister, said yesterday.

Next year'a budget would see the deficit cut to "below 2 per cent of gross domestic product" from this year's planned 2.8 per cent. The minister was speaking after Mr Witold Kozinski, deputy head of the central bank, had called for a balanced budget in 1998.

Mr Kozinski warned that Poland's trade deficit would grow to $16hn next year, even if the budget deficit were cut to around 1.7 per cent of gross domestic product, as apparently envisaged by the government. Such a fiscal deficit, according to the central bank, would mean the current account deficit would reach 8 per cent of GDP, the level at which a recent run on the Czech koruna forced the Prague government into emergency measures.

The first four months of this year have seen Poland's current account deficit reach $2.2hn, as imports have grown by 28 per cent and exports by a mere 8 per cent. Thls, said Mr Belka, suggested that the payments deficit for the year would reach $6bn, or 4 per cent of GDP, which was still a safe level.

"No one, including the International Monetary Fund, envisages that Poland should balance its hudget next year," he added. Next year's hudgel projections foresaw export growth of 12 per cent and import growth of 16 per cent.

Mr Belka, whose government faces elections in three months' time, said that spending on policing aod education would remaln a priority. He failed to mention the health aervice, where doctors are campaigning for wage increases.

The Solidarity Electoral Action, the main opposition movement, led by the Solidarlty trade union, has already promised to spend more on all three areas.

Mr Belka was speaking as parliament's lower chamber approved laws establishing a pension reform, which will gradually switch employees from the present pay-as-you-go system to a scheme under which Poles will be forced to save for their retirement through private pension funds. The programme, lo he initially financed through sales of stale assets, ahould increase the level of savings in the economy.

French shareholders more ready to flex their muscles

By Andrew Jack In Paris

French individual shareholders are taking companies' annual general meetings far more seriously and questioning directors in an effort to protect the value of their investments, according to a study released yesterday.

The anelysis of 1997 ACMs condncted by accountants Deloitte & Touche, the communications agency Ecocom, and the French magazine Investor highlighted a growing number of investors demanding to know how far outside directors were involved in the companies on whose boards they sat.

Many posed qoestions abont the number of shares held hy directors, and about the honoraria they received for sitting on boards. They also criticised directors for a lack of independence, and those who sat on a large number of different boards.

A second element identified by the study was growing criticism over the dilution of a company's capital through rights issnes, stock options granted to employees and the payment of dividends in the form of shares rather than cash.

Shareholders were also beginning to ask a wide range of questions at AGMs relating to their companies' future strategy and international expansion plans.

"Shareholders are asking more and more qnestions," said Mr Olivier Azières, director of audit and accounting at Deloitte & Touche. "The era of the 1970s and 1980s when they came just for the present or the cocktail at the end of the meeting are over."

He argued that the change over the past few years reflected the growing numbers of individual shareholders since a programme of privatisation of state enterprises in the mid-1980s, and the increasing pressure on fund managers to vote et annual meetings.

The growing importance of AGMs has also been highlighted hy unprecedented levels of opposition in shareholder votes to resolutions proposed hy several companies in the past two years. It is even possibla next month that Eurotunnel shareholders will have sufficient votes to hlock a restructuring plan.

The study suggested that a growing number of individnal investors are discovering thet they can wield power hy allocating proxies or becoming members of a series of shareholder associations and voting in gronps.

It argued that lnvestors wanted greater clarity and transparency in information provided hy companies, indications of a clear strategy, and greeter efforts et communication, rather than treeting annnel general meetings simply as a formal legal necessity.

SEC win in battle against insider trade

By John Authers and Richard Waters in New York

The US Supreme Court yesterday overturned a lower court decision that, if it had atood, would have seriously dented attempts by the Securities and Exchange Commission to crack down oo insider dealing.

The case, which sprang from Grand Metropolitan's takeover of Pillsbury in 1988, has been the most closely watched insider trading case of recenl years. If the earlier appeals court decision had been allowed to stand, between 40-45 per cent of all prosecotions launched in the past five years would have been affected, said Mr William McLucas, director of enforcement at the SEC.

The case stemmed from the $4.5m profit made by Mr James O'Hagan, a partner at the Minneapolis law firm which Grand Met had hired to advise it on its hid for Pillsbury. Mr O'Hagan remortgaged his house to buy shares and call options in Pillsbury in tha weeks before Crand Met's interest was made public.

Desplte a conviction on 57 counts, however, an appeals court ruled that the lawyer was not technically an "insider" at Pillsbury. It also ruled that Mr O'Hagan had no fiduciary duty to Pillsbury, since he did not act for the company. The Supreme Court yesterday overturned this judgment, in the process upholding the SEC's argument advisers acting for a bidder, not just e target company, should be subject to insider trading rules.

"It would make scant sense to hold a lawyer-turned-trader like O'Hagan a ... violator if he works for a law firm representing the target of a tender offer, hut not if he works for e firm representing the bidder," according to the written opinion from Justice Ruth Beder Cinsburg. Six of the judges fully concurred with her opinion, hut three dissented in part.

By siding with the SEC, the Supreme Court upheld the Commission'a so-called "misappropriation theory," which has been widely used in insider trading prosecutions in the last decade. This holds that anyone who trades on information about a tender offer before it is announced should be held accountable, nol only those who have a direct fiduciary duty to companies involved.

"This decision reaffirms the SEC's efforts to make the stock market fair to all people, whether you're a Wall Street veteran or Main Street newcomer," said Mr Arthur Levitt, chairman of the SEC. "Insider trading is profoundly inconsistent with the American public's sense of fairness."

The SEC made clear that this decision did not expand its powers as they have evolved over the past 10 years, hut prevented any erosion of them. Lawyers agreed. "Now, for the first time, the [misappropriation] theory is established everywhere and concretely – it is one of the biggest criminal securities cases in a generation," said a partner at a top Washington law firm.

US orders for durable mannfactnred goods declined by a seasonally adjusted 0.6 per cent last month, as demand for commercial aircraft and new cars fell sharply, the Commerce Department reported yesterday, Gerard Baker in Washington writes.

The fall followed a 1.6 per cent rise in April, revised up from a previous estimate of 1.3 per cent. The figures were broadly in line with the picture aeen in recent weeks of the US economy slowing from its rapid pace of growth in the first three months of the year to a more sustainable pace in the second quarter.

Martin Broughton sees little hope of meeting main public health targets

BAT chief fumes at US tobacco deal

By Richard Tomkins in New York

Mr Martin Broughton, chief executive of Britain's BAT Industries, is fuming over the US tobacco industry's $368.5hn settlement with its foes. Words like "stnpid" and "ridiculous" figure in his comments on the deal – even though he is one of its main signatories.

The industry's big win from the settlement, if Congress approves it, will be immunity from multi-million dollar litigation. But Mr Broughton protests bitterly over some of the concessions that have been wrung ont of the industry in return, some of which he sees as misguided.

Indeed, he puts himself on the same side as the deal's critics by suggesting that its main public health measures – tha restrictions on cigarette advertising, the targeted cuts in teenage smoking and regulation by tha Food and Drug Administration – are likely to fall short of delivering the desired benefits.

On the advertlsing restrictions, which are so severe es to come close to a ban, he says: "All of our experience is that a ban on advertlsing makes absolutely no difference to the number of smokers or the number of cigarettes smoked.

"It's a bit like motor cars: it's a mature product. Advertising cars doesn't suddenly make somehody who couldn't drive before decide he's going to pass the test and go out and huy a car."

Instead, Mr Broughton says, the restrictlons will simply limit cigarette makers' ability to compete with one another. "If wa agreed voluntarily to do what we are doing here, wlthout Congressional approval, we would be up before the Justica Department on an anti-trust charge that said we were delibarately preventing competition."

Mr Broughton is a 50-year-old qnalified accountant who joined BAT Industries as a travalling auditor in 1971. He worked his way up through the ranks to become senior finance director in 1990 and chief executive in 1993.

He found himself drawn lnto the US tobacco negotiations when Philip Morris and RJR Nablsco, BAT's two bigger rivals in the US market, agreed to start talks with anti-tobacco lawyers at the beginning of April. As the talks neared their cllmax, he was identified as a stumbling hlock to a deal because of his strong opposition to some of the concassions belog demanded hy the anti-tobacco side.

Last week's signing of the deal seems to hava done little to alleviate his concerns. In particular, the targats for reducing under-age smoking rankle because they seem to rest on the assumption that the tobacco companies can control smoking hy teenagers - a premise he rejects as "totally false".

Martin Broughton: deeply unhappy at deal

"It's all worked on the basis that the only reason under-age smokers smoke is because cigarette companies advertise to them and make the product freely available to them," he says, protesting that this argument ignores societal and cultural pressures.

The deal proposes that teenage smoking should fall by 30 per cent in five years and 60 per cent in 10 years, with penalties of up to $2bn a year against the tobacco companies if the targets are not met. The penalties, however, may be reduced by 75 per cent if the industry can show that it "pursued all reasonahly available measures" to reach the goals.

Mr Broughton says the anti-tohacco negotiators insisted on the penalties so the tobacco companies could he held to hlame if the targets were missed. "The assumption is that if these targets, which we believe to be unrealistic, are not met, it must be our fault, so we have to pay some more."

Mr Broughton says he is concerned that the deal gives the Food and Drug Administration powers to reduce, and eventually eliminate, the nicotine content of cigarettes, but he takes comfort from a conditioo that prevents the FDA from doing so if a hlack market in full-nicotine cigarettes would result.

He says it would be "a damned stupid thing for anybody to suggest" that a product should be prohibited if that merely led to e hlack market in which people kept on consuming the product hut the government received no tax from it.

"It's not a loophole at all: il's the one practical thing in there to say that if we are going to eliminate nicotine, at least only do it when there is going to be consumer acceptance of a product without nicotioe. Doing it now flies in the face of reality."

Although Mr Broughton appears to see little impact from the public health measures contained in the deal, he expects smoking to decline in the US because of the price increases that will be introduced to fund the settlement.

"Market aoalysts are seeing a fall of 10-12 per cent, and that doeso't look like an irrational forecast to me," ha says. He says that BAT's US profits will suffer: "Only time will tell by how much."

But he is not too worried that other countries will seek similar deals. "I think there will be a lot of noise from people ln other countries, bot when you look at this coolly, this is a uniquely American situation and a uniquely American solution to it.

"Fortunately, most other countries are not hlessed with the aame legal structures and systema that the Americans have."

Mexico begins sell-off of satellite interests

By Daniel Dombey in Mexico City

The Mexican government has begun the sale of almost all of its satellite interests, in a privatisation expected to raise several hundred million dollars.

The sale is likely to attract interest because of a protocol last year between Mexico and the US which permits each country lo beam satellite television to the other.

The government, which has not said how much it expects to make from the sale, is selling Mexico's three fixed satellites, plus permits to operate new satellites in particular orbits – or slots – which have not yet been occupied.

The privetisation had heen an administration goal for the last 2½ years, hut has been held up.

"This privatisation took time," said Mr Javier Lozano, the country's communlcations minister, "because we needed to change the constitution, draw op a new telecommunications law, restructure the operator and decide what to sell."

Mexico's three salellites, two of which were launched this decade, have been grouped together into e newly formed company known as SatMex. The satellites have annual sales of $110m.

The government will privetise 60 to 75 per cent of SatMex, a process it expects to conclude by October. It plans to sell off the remainder as shares during the next five years, after, it hopes, benefiting from an appreclation in the company's market value.

"It is a good time for the sale. In another couple of years it may not be, since the dusl will have settled and many companies may have acquired the satellites they want," said Mr Andrew Fyfe, a consultant at Price Waterhouse, which formerly edvised the Mexican government on its satellite assets.

"We declded to privatise the three satellites together so that the sale is attractive to foreign investors who can make the satellites competitive on world markets," said Mr Lozano who expected the primary market for the satellites' services to be open access rather than pay television.

Foreign investment in the satellites will be limited to 49 per cent and several internatlooal groups are understood to he interesled, including Hughes Electronics, which originally huilt the satellites.

The government will separately auction slots it holds for other satellites, with the first sale taking plece this aulumn for a satellite to be launched next year.

However, it will retain the satellites' teleport capacity, which can be used to run private data networks.

Illicit drugs trade is put at $400bn

UN report seeks to assess scale of global narcotics industry

By Stephen Fidler and Jimmy Burns

Illicit drugs generate turnover estimated at $400bn year – about 8 per cent of world trade and more than the trade in either iron and steel or motor vehicles, according to a report published today by the United Nations International Drug Control Programme.

The World Drug Report, the first of its kind to be issued by the Vienna-based agency, says traffickers are taking advantage of increased trade and free capital flows. "In ways not dissimilar to their counterparts in legal enterprise, criminal organisations involved in illicit drugs respond to opportunities created by a globalising market economy," it says.

In a report based on indirect indicators of the drug cycle such as the known quantities of drugs seized, numbers of laboratories discoverad and numbers of drug related deaths, the agency has estimated total figures to provide a global picture of the drug situation.

The report says drug traffickers are making gross profit margins of up to 300 per cent, while drug seizures are only a small proportion of estimated output. Worldwide, 251 tonnes of cocaine were seized in 1995 against an estimated 1,000 tonnes of production, and of the 300 tonnes of heroin estimated to be produced a year, 31 tonnes were seized.

At these levels, the report implies, there is very little impact on the profitability of drug organisations. It says that at least 75 per cent of international drug shipments would need to be intercepted to substantially reduce the profitability of drug trafficking.

The report says many drug users are switching from drugs snch as heroin and cocaine to ecstasy and methamphetamines.

The most widely abused drug remains cannabis, consumed by about 2.5 per cent of the world's population, 140m people. An estimated 8m people, some 0.14 per cent of the world population, take heroin, debatably tha most serious drug of abuse.

The most pronounced increase of drug abuse in recent years has been of synthetic amphetamine-type stimulants. About 30m people consume such drugs worldwide. Seizures of these drugs increased ninefold between 1978 and 1993, an average annual increase of 16 per cent.

Tha report identifies two trends in the laundering of drug money. First, it is becoming more professional, with a steady increase in the fees paid to money launderers: from 6-8 per cent in the early 1980s to 20 per cent by the mid-1990s. Secondly, it is becoming more internationalised, potentially undermining the integrity of the international financial system.

The report says countries where plant-based drugs are grown benefit little from the trade, while their economies can be damaged. The economies most affected are Bolivia, where 10 per cent of the workforce and more than 9 per cent of gross domestic product is generated by drugs; Peru, 3 per cent and 7 per cent respectively; Colombia, where the employment effect is small but almost 6 per cent of GDP is generated; and Pakistan, where nearly 4 per cent of GDP comes from drugs. Between 28 and 53 per cent of Bolivia's export revenues are estimated to come from narcotics, and one-fifth of Pakistan's.

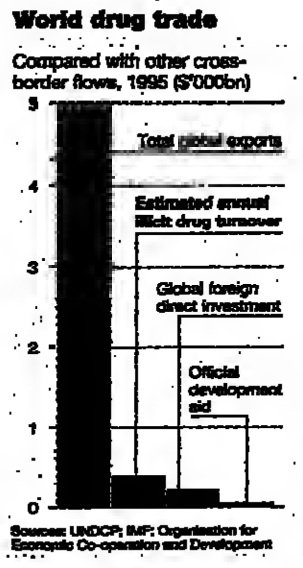
The report is careful to avoid political controversy, by avoiding any direct criticism of individual countries, or taking sides in the continuing debate over prohibition and law enforcement.

Ms Anna Bradley, executive director of the London-based Institute for the Study of Drug Dependence, said yesterday: "The report is a brave attempt to describe the world situation but it fails to provide clear pointers on policy effectiveness and political black spots.

"It seems the UN may have insufficient powers in this policy area," she added.

World drug trade

Compared with other cross-border flows, 1995 ($'000bn)



Sources: UNDCP; IMF; Organisation for Economic Co-operation and Development

Up to 53 per cent of Bolivia's export revenues are estimated to come from drugs, and a fifth of Pakistan's

World Bank report says an effective state is vital for development

'Dazzling' growth versus stagnation

The World Bank says the impact of government effectiveness and credibility on economic growth is shown by the sharp contrast between development in sub-Saharan Africa and east Asia, writes Andrew Balls.

"Countries that have concluded that the role of the state should be less prominent ought to consider how the dazzling growth of East Asia [was] made possible by an effectiva state,"says Mr James Wolfensohn, the bank's president.

In 1964, income per head was virtually the same in the two regions. Today, income per head is more than five times higher in east Asia. The report suggests that the limits set on the growth of the east Asian state, the soundness of the policies it has introduced and the effectiveness with which it has delivered services have played an important part in the growing gap between the two continents.

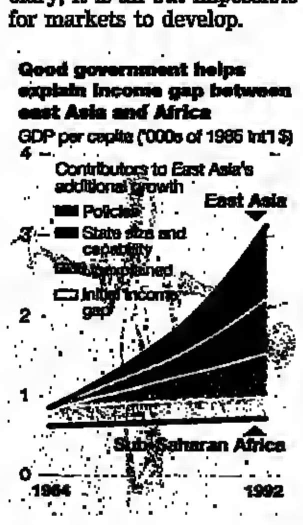
The bank's 1997 World Development Report survey looked at the relative importance of state size and capability, and the policies governments pursued, in the growing gap between east Asia and Africa, taking into account initial income and education levels. The state was the same size in the two regions in 1964, although African governments were already spending more on consumption, largely as a result of greater public sector employment.

Today, government consumption in Africa is one and a half times the east Asian level. The evidence points to the effect of good government policies: openness to trade and investment, lack of price distortions, relative lack of black market exchange rate premiums and higher levels of education and investment, says the report.

The reliability and effectiveness of institutions upholding the rule of law and protecting property rights have allowed faster development in East Asia. Withont protection from theft and violence, protection from arbitrary state actions and protection from a fair and predictable judiciary, it is all but impossible for markets to develop.

Good government helps explain income gap between east Asia and Africa

GDP per capita ('000s of 1985 Int'l $)



Africa's crisis of governance

By Andrew Balls

Africa faces "a crisis of statehood" which cannot be resolved without international help, the World Bank warns in its annual World Development Report published yesterday.

"The majority of countries in Sub-Saharan Africa now have lower capability (including state capability) than they did at independence," says the 265-page analysis of the role of the state in a changing world.

The report warns that without an effective state, economic and social development is impossible. A "minimalist state would do no harm, but neither could it do much good," said the World Bank president, Mr James Wolfensohn, launching the report. "Markets and governments are complementary. The state is essential for putting in place the appropriate institutional foundations for markets," said Mr Joseph Stiglitz, the World Bank's chief economist.

Critics have accused past reports of concentrating too much on the World Bank's recommended reforms, and too little on the constraints on states and governments that must implement them.

This latest report puts greater emphasis on the environment in which reformers must operate, and on rules and institutions, reflecting a shift among academic economists.

Drawing from examples of successful and unsuccessful states from around the world, the Bank sets out a two-part strategy for greater efficiency, urging governments to become "better focused on the core public activities that are crucial to development" while looking for ways to improve the state's capability by "reinvigorating public institutions".

Although the Bank stresses that all states need to improve efficiency, its toughest comments are reserved for Africa. "An institutional vacuum of significant proportions has emerged in many parts of Sub-Saharan Africa, leading to increased crime and an absence of security, affecting investment and growth," says the report.

Many African states "are trapped in a vicious circle of declining state capability and thus declining credibility in the eyes of their citizens". Most African countries will need to raise real public wages, increase spending on social services "and undertake vast investment in personnel management, retraining and accountability", says the Bank. But it adds that this major rebuilding of state capability cannot happen without international assistance.

"Even in the worst situations, very small steps toward a more effective state can have a large impact on economic and social welfare. The challenge for states is neither to shrink into insignificance, nor to dominate markets, but to start taking those small steps," said Mr Wolfensohn.

Editorial Comment, Page 13

Government must be markets' 'partner, catalyst and facilitator'

Andrew Balls on the proper size and role of the public sector in an economy

Since Bangladesh became independent in 1971 its government has doubled in size. The number of ministries increased from 21 to 35 and the country's 450,000 civil servants grew to a million.

The result for Bangladesh – and for other countries that have "simply overextended themselves" – has been "disastrous", says the World Bank.

In the case of Bangladesh, says the bank in its 1997 World Development Report, the expansion of the government has reduced its capacity to implement policy. Coordination between departments has become almost impossible and regulation intrusive. Newly created vested interests have blocked reform.

"Withont an effective state, sustainable development, both economic and social, is impossible," says Mr James Wolfensohn, the bank's president, in his introduction to the report. The state must set rules to allow markets to function, and must play by the rules itself, acting predictably, and preventing corruption. The state must be a "partner, catalyst, and facilitator" of economic development, he says.

The survey of development in 133 countries focuses on the role of the state. This spotlight on state institutions and politics marks a shift of emphasis. Previous reports have been criticised for paying too much attention to the "wish-lists" for reform and too little attention to the institutions that make reform happen.

The report highlights five crucial functions that governments – rather than markets and private associations – must provide:

- Legal foundations;
- An effective macro economic policy environment;
- Investment in basic social services and infrastructure;
- A comprehensive safety net for vulnerable members of society;
- Basic environmental protection.

"For buman welfare to be advanced, the state's capability – the ability to undertake and promote collective actions efficiently – must be increased."

Governments cannot provide growth, says the report. But they must provide an institutional framework to underpin the markets that do. East Asian governments bave done a good job in managing economic development. Chile and Mauritius, too, have been successful in getting the fundamentals right. Others have been less successful.

The World Bank says that, despite some encouraging exceptions, notably Botswana and Uganda, most African states now have lower "state capability" than 50 years ago at independence. Countries with weak state capability increased income per head by only half a per cent a year over the last three decades. During the same period, income per bead in countries with strong capability, such as in East Asia, grew on average by 3 per cent.

"Globalisation [greater world economic integration] is a threat to weak or capriciously governed states. But it opens the way for effective, disciplined states to foster development and economic well-being," the report says.

The application of predictable rules and policies – state credibility – is vital if developing countries are to attract private investment. The report's survey of 69 countries shows that poor state credibility results in lower investment and growtb and undermines development.

Private investors steer clear of countries where the state fails to fulfil its core tasks. In central and eastern Europe, Latin America, and in Sub-Saharan Africa, 60 per cent of companies surveyed reported that policy unpredictability seriously hampered business and investment. In the Commonwealth of Independent States, 80 per cent of entrepreneurs voiced the complaint. More than half of managers surveyed in the CIS said they spent more than 15 per cent of their time negotiating with government officials over rules and regulations.

"Low state capability in many of the countries of the CIS is a serious and mounting obstacle to further progress in most areas of economic and social policy," the report warns.

While geographical and political diversity means there can be no simple blueprint to guarantee effective government, the World Bank says countries should adopt a two-part strategy to increase state effectiveness.

First, governments must match their role to their capabilities. Developing countries must concentrate on getting the basics right, rather than trying to do too much, and must safeguard property rights and guarantee the rule of law. Development in south Asia is strangled by over-regulation and excessive state consumption, says the report.

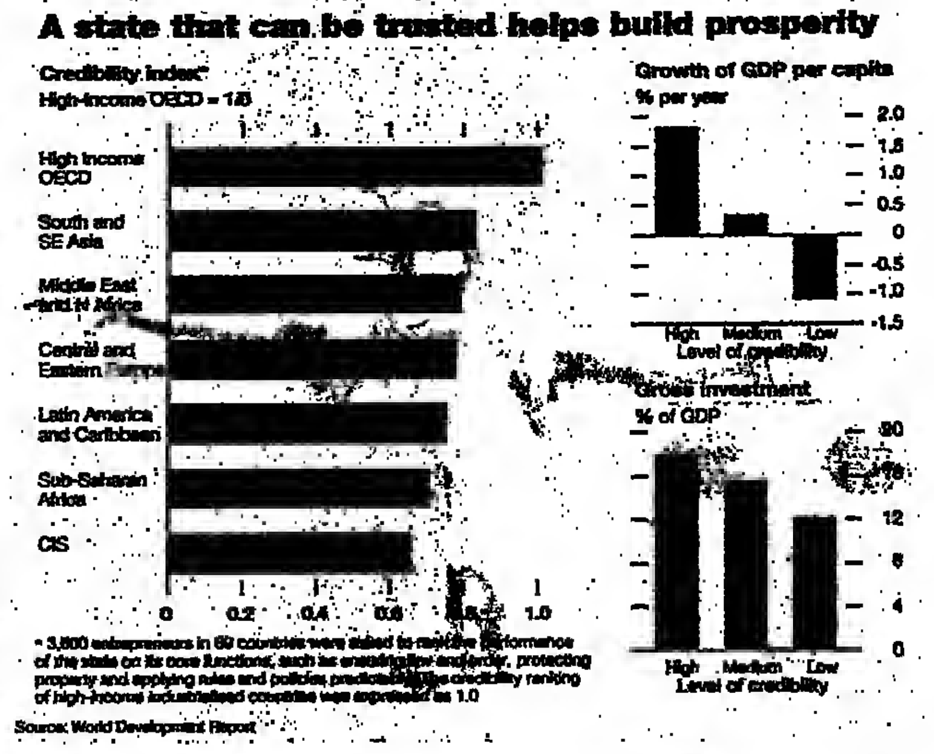
Secondly, governments must increase state capability by ensuring that effective rules and restraints check public authority and prevent corruption. Increasing competition, and lowering barriers to trade reduces the state's discretionary power and, in turn, corruption. Public officials should be appointed on merit, not on political patronage. In addition, governments must seek to decentralise power and to involve the population in decision-making. Democratisation and decentralisation have, for instance, led to a "quiet revolution" of reform in Latin America.

Africa, on the other hand, is experiencing a "crisis of statehood", undermining the capability and legitimacy of government. It warns that the costs of failure to ensure state effectiveness and credibility is not simply stagnation and delayed growth. Rather, the danger is of relentless downward spirals and collapsed states. Between 1985-95 income per head fell by 1.3 per cent between 1985-95 in Burundi, by 5.4 per cent in Rwanda, and by 3.6 per cent in Sierra Leone. The state has collapsed in Somalia and in Liberia, which is locked in a "no war, no peace" equilibrium, torn apart by fighting factions.

The report concludes that "if governments cannot grasp the nettle of improving their effectiveness and re-invigorating public institutions, the prospects for significant improvement in economic and social welfare, in some countries, may be bleak indeed".

World Development Report 1997: The State in a Changing World. Published by Oxford University Press for the World Bank, 1818 H Street NW, Washington DC 20433, US

A state that can be trusted helps build prosperity



* 3,600 entrepreneurs in 69 countries were asked to rank the performance of the state on its core functions, such as ensuring law and order, protecting property and applying rules and policies predictably. The credibility ranking of high-income industrialised countries was expressed as 1.0

Source: World Development Report

Netanyahu puts off promotion of hardliner

By Judy Dempsey in Jerusalem

Mr Benjamin Netanyahn, the Israeli prime minister, has postponed until early next week a cabinet reshuffle in which it is expected Mr Ariel Sharon, the infrastructure minister, will be mada finance minister.

The postponement follows the defeat of a no-confidence vote on Tuesday night which has left the Likud-led coalition more divided than ever and the government increasingly unstable.

Yet it is those two elements which explain why Mr Netanyahu is likely to give Mr Sharon the finance ministry. He needs Mr Sharon to pull the party together as well as reward him for helping bring Mr Netanyahu to power a year ago.

Then, Mr Sharon managed to persuade Mr David Levy, the foreign minister, to join the Likud bloc after Mr Levy had broken away to form his own Gesher faction. He also swung over the entire religious community and advocates of a "Greater Israel" who believe the West Bank is their birthright.

"Netanyahu, with his eye on the elections in 2000, needs Sharon to bully the party and galvanise support as be did last year as much as Netanyahu owes him favours," a foreign ministry official said.

But promotion to the finance ministry of a man found by a state inquiry of being indirectly responsible for the murder of hundreds of Palestinians in the Sabra and Chatila camps near Beirut in 1982, when Mr Sharon was defence minister, has stunned moderate Likud deputies in more ways than one.

Mr Sharon is insisting he retain control over land and water – responsibilities transferred to the infrastructure ministry which Mr Netanyahu created last year in order to fit the leader of the Likud right into the cabinet. While these are central issues in any future settlement with the Palestinians, Mr Sharon is also insisting he be part of the inner cabinet which discusses security and the peace talks, a move which Mr Yitzbak Mordechai, the pragmatic defence minister, staunchly opposes. "He knows what kind of signals that would send to the Arab world," e senior diplomat said.

Yesterday, Mr Sharon told Ma'Ariv, the Israeli newspaper, he had asked Mr Netanyahn to give him responsibility for running tbe negotiations with the Palestinians. The Arab world already fears the worst, not only because of Mr Sharon's record in Lebanon but because of his unremitting hardline policies towards the Palestinians – which have far from mellowed.

Soon after last year's elections, Mr Sharon, in an interview witb Israel Radio, accused Mr Yassir Arafat, the Palestinian leader, of being a "murderer of children, babies, women and elderly people. I will not sbake tbe hand of the murderer." Mr Ahmed Tibi, the Israeli-Arab adviser to Mr Arafat, simnly replied that "the last person who should talk about the murder of children and massacres is Ariel Sharon".

Yet despite his ignominious past, Mr Netanyahu seems oblivious to the reaction and consequences of promoting Mr Sbaron. "Those wbo support this appointment say Sharon will get things done. That he is a bulldozer. That he will pull the party together," a foreign ministry official said.

As housing minister in the early 1990s, Mr Sharon bulldozed his way into the West Bank, expanding Jewish settlements on confiscated Palestinian lands.

Intrigue and distrust, Page 12

Kazakh tariffs may irk Russia

By Charles Clover in Almaty, Kazakhstan

Kazakhstan's move to halve tariffs on furniture and car imports may help western exporters but seems certain to anger Russia. It is due to be discussed later this week at a meeting of the troubled customs union of which Kazakhstan is part.

The unilateral move, made quietly at the beginning of this month, bas only now become apparent.

Kazakbstan has been a member of a customs union with Russia, Belarus and Kyrgyzstan since the union was founded in 1995.

Countries within the Commonwealth of Independent States (CIS), successor to the Soviet Union, have no tariffs on each other's goods, but members of the customs union are expected to implement a common tariff against goods coming in from outside.

Russia has bigh tariffs on imported manufactures to protect domestic industries, and considerable controversy exists among customs union members over whether these tariffs should be applied in their countries.

"That means Kazakhs are paying more for their imports to protect Russia's manufacturing industry," said Mr David Tarr, an expert on the customs union at the World Bank. Kazakhstan's tariffs decision represents an attempt at economic independence from Russia.

"When we signed the customs union, we agreed to coordinate our external trade policies," said Mr Erlan Idrisov, first deputy foreign minister of Kazakhstan. "But there have been unilateral acts by Russia which have forced other members to take unilateral actions."

Kazakhstan's first attempt to lower tariffs on cars lasted only six days last year. "A flood of cars came in, and after a week they raised the tariffs again," said a western diplomat. In March, another row over the lowering of these tariffs left Kazakhstan close to pulling out of the customs union.

Under the new regime, customs duties for an average piece of furniture will fall from $73.2 to $2.4, while customs fees will drop from $752 to $360. Value-added tax will fall from $405 to $313.

Car excises will be determined depending on the age of the vehicle. Minimum excise rate for a car made less than five years ago will be $910, but a car made five to 10 years ago will be assessed at $1,378.